

Vol. II

TRANSIENT RECORDS

1900-1901

Supreme Court of the United States

NOTICE OF PETITION

No. 379

COLORADO INTERSTATE GAS COMPANY,
PETITIONER.

FEDERAL POWER COMMISSION, CITY AND
COUNTY OF DENVER, COLORADO, PUBLIC
SERVICE COMMISSION OF WYOMING ET AL.

No. 380

CANADIAN RIVER GAS COMPANY, PETITIONER.

FEDERAL POWER COMMISSION, CITY AND
COUNTY OF DENVER, COLORADO, PUBLIC
SERVICE COMMISSION OF WYOMING ET AL.

ON WRIT OF HABEAS CORPUS IN THE UNITED STATES SUPREME COURT
OF APPEALS AND THE DISTRICT COURT

PRINTED AND BOUND BY THE NATIONAL ARCHIVE, INC.

CHICAGO, ILL.

RECEIVED 1901
JANUARY 2, 1901

United States Circuit Court of Appeals
TENTH CIRCUIT.

No. 2550.

COLORADO INTERSTATE GAS COMPANY,
a corporation, **PETITIONER,**

vs.

**FEDERAL POWER COMMISSION; CITY AND COUNTY
OF DENVER, COLORADO; PUBLIC SERVICE
COMMISSION OF WYOMING; COLORADO-WYO-
MING GAS COMPANY; and CANADIAN RIVER
GAS COMPANY, RESPONDENTS.**

No. 2551.

CANADIAN RIVER GAS COMPANY, a corporation,
PETITIONER,

vs.

**FEDERAL POWER COMMISSION; CITY AND COUNTY
OF DENVER, COLORADO; PUBLIC SERVICE
COMMISSION OF WYOMING; COLORADO-WYO-
MING GAS COMPANY; PUBLIC SERVICE COM-
PANY OF COLORADO; and COLORADO INTER-
STATE GAS COMPANY, RESPONDENTS.**

**ON PETITION TO REVIEW AND SET ASIDE ORDERS OF THE
FEDERAL POWER COMMISSION.**

FILED SEPTEMBER 9, 1942.

VOLUME 3—Pages 1231-1820

[Testimony of CARL H. SCHUTTE, continued.]

By Mr. Lange:

Q. Mr. Schutte, you have heretofore testified in connection with exhibits prepared and submitted in this proceeding?

A. Yes, sir.

Q. I will ask you whether you have also had occasion to examine Exhibit No. 67 that was prepared by Mr. William A. Lusk and heretofore identified in this proceeding, in evidence?

A. Yes, sir.

Q. In connection with that exhibit I will ask you whether you have examined Statement 2 of that exhibit of Mr. Lusk which is described as original cost of Denver pipeline properties at December 31, 1920 to 1939, inclusive?

A. Yes, sir, I did.

Q. Did you find any difference between the amounts shown on that statement and those on the books of the company as of December 31, 1939?

A. In so far as the plant account is concerned, yes, sir.

Q. What was that difference?

A. The difference is \$14,334.51.

Q. And what did that consist of?

A. In the transmission groups of accounts, which is Item 1 of Statement 2 of Exhibit 67, Mr. Lusk included the cost of five farms that are owned by the Colorado Interstate Gas Company and which are carried on its books and financial statements as other physical property. The cost of those farms at December 31, 1939 was \$14,334.51 and the company's statement shows them in the category of an investment other than its investment in pipe line facilities.

Q. Now, what do those items describe, as in the company's books?

A. The company describes them as Anderson farm, Castle farm, Gaumer farm, the Green farm and the Jones farm.

Q. Do you have any record as to the time of acquisition of those properties per the company's books?

A. Yes, sir. Ford, Bacon & Davis purchased right of way easements prior to and during the construction of the pipe line from the owners of each of these farms. They did not, however, obtain appropriate releases in connection with the mortgages when they acquired those rights of way

or easements. When the right of way over the Anderson farm was purchased in November 1927 the taxes for that year had not been paid, and in 1932 when the tract was sold for unpaid taxes the 1927 tax item was senior to the right of way easement acquired and the sale of the property at public auction and the purchase thereof by other interests would have made the original right of way purchased ineffective.

To protect its right of way across this tract, the company purchased the farm at the tax sale. The Castle, Gaumer, Green and Jones farms were purchased at mortgage foreclosure sales. Due to the fact that the mortgages were senior to the right of way easements acquired and because no releases had been secured when the easements were acquired, the sale of these farms to other interests at a foreclosure would have made those rights of way ineffective.

I think I mentioned once before that Mr. Benson advised us that it had not been the company's policy to acquire releases in cases of mortgages except when it appeared that the mortgage was likely to be foreclosed upon and in those instances where they would secure the necessary releases the payments in such cases were usually applied, with the consent of the mortgagor, as a payment on the mortgage itself.

Q. What Mr. Benson did you have reference to?

A. H. F. Benson, the company's land representative. There were two mortgages on the Castle farm. The first mortgage was held by the Federal Land Bank of Wichita and a second mortgage by Nathan L. and Raymond A. Wheeler.

The holders of the second mortgage foreclosed and the company purchased the property. When the first mortgage became due the company paid that. The cost of the Castle farm includes 26 shares of the capital stock of the Bessemer Irrigating Ditch Company. According to information received from that company its capital stock has a market value of at least \$75 per share. Therefore, the 26 shares acquired with the Castle farm have a market value of at least \$1950, which, however, has not been segregated from the cost of the farm itself.

The Gaumer, Green and Jones farms were purchased from the public trustee of Las Animas County, Colorado at mortgage foreclosure sales. The same situation holds true there as to releases.

Q. What reason, if any, do you have for not including those—for not recognizing those as properly includable in the original cost as of December 31, 1939?

A. Well, the company had already acquired rights of way over the five farms prior to or during construction period and the costs of those rights of way have been and are still included in the appropriate plant accounts.

To, therefore, include any portion of the farm cost in addition to the costs of such rights of way results in duplication of that particular right of way cost; then, too, these tracts, the area of which is shown on the—well, in an exhibit I have prepared there—are not now and never have been in their entirety devoted to the operation of the company's pipe line facilities, and only that portion of each of the farms as is used for right of way is essential for gas operations.

The Federal Power Commission's Uniform System of Accounts under instructions, gas plant account, Page 44, Item 9, under land and land rights, says:

"The cost of land and land rights acquired in excess of that used in gas operation, shall be included in Account 110, Other Physical Property, or Account 100.4, Gas Plant Held for Future Use, as appropriate."

Section "J" of that particular section states:

"When the purchase of land for gas operations requires the purchase of land not used for such purposes the charge to the specific land account shall be based upon the estimated cost of only that portion which is used for gas operations. The cost of the remaining land shall be included in Account 100.4, Gas Plant Held for Future Use, or 110, Other Physical Property, as Appropriate."

The company has consistently shown the cost of these farms as other physical property and has excluded that amount from its plant account in its statements and on its books, and the tracts in their entirety are not devoted to or

necessary for the operation of the company's pipe line facilities, which is evidenced by the fact that the titles to the five farms as at December 31, 1939 in the names of E. S. Hall, to facilitate the transfer of the properties if an opportunity to sell the farms occurs.

In discussing these items with Mr. H. F. Benson the company's land representative, he told us that a few years ago the United States Government offered to buy the Gaumer and Jones farms which are located in the so-called Colorado Dust Bowl area in connection with reclamation work. The company agreed to sell these farms at the Government price, but because funds for the project were exhausted, the farms were not purchased and are still retained by the company.

Q. You just referred to the fact that you had prepared a compilation making a comparison of costs in connection with these farms. This is the comparative statement you have reference to?

A. Yes, sir.

Mr. Lange: Will the stenographer please mark that for identification?

The Trial Examiner: It will be marked for identification as Exhibit No. 195.

(Exhibit 195, Witness Schutte, marked for identification.)

The Witness: That purports to be a comparison of original cost of the Denver pipe line properties as of December 31, 1939, per company books, with Exhibit No. 67 introduced by Mr. William A. Lusk.

By Mr. Lange:

Q. That is the same exhibit you were just referring to a while ago?

A. Yes, sir.

Q. Now what are the differences that you noted in connection with the Statement 2 of Mr. Lusk's Exhibit 67, particularly items 1 to 7 of that statement?

A. In preparing Statement 2 of Exhibit 67, Mr. Lusk made an allocation of the previously undistributed construction items. This allocation covered other expenses

during construction, \$63,675.61; law expenditures during construction, \$50,899.41; and interest during construction, \$180,866.99, or a total of 295,442.01.

Mr. Spencer: You referred to items 1 to 7 and I am not following you as to what items you are talking about.

The Witness: Exhibit 67.

Mr. Lange: Of Exhibit 67, Statement 2, Mr. Spencer.

Mr. Spencer: I see. All right. Excuse me.

The Witness: One item of undistributed construction costs on the books which is rights of-way, in the amount of \$350,000 was omitted from the statement—from Mr. Lusk's Exhibit No. 67. Mr. Lusk allocated the items aggregating \$295,442.01 to the functional groups rather than to the individual primary accounts, using as a basis the ratio of the total of such undistributed amounts to the direct construction costs as of December 31, 1928, which resulted in the addition to each of the functional groups—functional group figures at December 31, 1928 of 3.4839086 per cent, of the direct costs as undistributed construction expenditures. The allocation of the undistributed construction costs and the application thereof to the book costs as of December 31, 1939 is shown in Statement No. 1 of Exhibit 195 just introduced.

Mr. Spencer: 1-A, you mean, Mr. Schutte?

The Witness: No. 1, Mr. Spencer. In Column 3 is where he makes his allocation.

Mr. Spencer: I see.

The Witness: Which also shows the comparison of the original cost per books adjusted to reflect the inclusion of the undistributed construction costs to functional groups with the amounts for comparable accounts per statement 2 of Exhibit 67.

I agree with Mr. Lusk that the method used for allocation of previously undistributed construction costs is an equitable method of distribution. However, there has been some retirement of property included in the December 31, 1928 investment base to which a proportionate part of the

undistributed construction expenditures should have been applied in recording such retirements. This has been overlooked both as to the company books and in the preparation of Statement 2 of Exhibit 67.

By Mr. Lange:

Q. Well, then, in your opinion how much of those undistributed construction costs should have been retired?

A. Based on the retirements in the transmission system other structures and equipment, telephone system, office furniture and equipment, tools and equipment, and all of the garage equipment, that was in the fixed property account at December 31, 1928, approximately \$4,000. This amount of course is subject to adjustment based on the use of the individual primary accounts, as of December 31, 1928, as a basis for the allocation of the previously undistributed construction costs.

The amounts of each of the primary accounts were not available in Mr. Lusk's working papers, he having prepared his statement on functional group rather than on an individual primary account basis.

The total amount of the undistributed construction costs allocated as well as the portion thereof subject to retirement is subject to adjustment based on the Commission's determination as to the inclusion of all of the claimed original costs, whether direct or otherwise.

Q. Now, do you limit these exceptions that you have taken to the statements in No. 2 of Mr. Lusk's Exhibit 67, or are they also applicable to any other exhibits in your opinion?

A. They represent only exceptions taken to the original costs as shown by Statement 2 of Exhibit 67, Items 1 to 7 thereof, inclusive.

Q. Is there any other statement that you wish to make in connection with that, Mr. Schutte? I will ask you whether that same exception would apply in any other exhibit or any other testimony in this proceeding where those same figures are utilized?

A. So far as I know those figures have only been utilized in connection with Exhibit 67.

Q. - If they are utilized in any other exhibits or subsequent exhibits your same objections would apply?

A. That is correct.

Q. And your opinion that you have expressed now would apply?

A. Yes, sir.

Mr. Lange: Mr. Examiner, I see there is a typographical error here in the spelling of a word in this exhibit, Statement No. 2, "Comparative Statement Showing Cost of Certain Forms:" The word "Forms," F-o-r-m-s, should be "Farms", F-a-r-m-s.

The Trial Examiner: The second line from the top of the page, Mr. Lange?

Mr. Lange: Yes, sir.

The Trial Examiner: Very well, we will have the reporter make that correction.

Cross Examination.

By Mr. Spencer:

Q. Mr. Schutte, referring to the fact that in your opinion Mr. Lusk has overlooked deducting his undistributed construction costs on items of property that have been retired, I think you said about \$4,000 was the amount?

A. That is correct.

Q. Is there any detail on that in this Exhibit No. 195?

A. No, sir.

Q. Have you any more detail that what you gave in your direct testimony?

A. No, sir.

Q. In other words, you haven't reduced the error, if any, to a specific schedule or statement?

A. No, sir.

Q. You have not?

A. I did not do that, Mr. Spencer, because I had already taken exception to certain items that are included in this undistributed cost which I suspended for the Commission's consideration in connection with my plant exhibit which I think is No. 139, and until a determination has been made

elimination in connection with the total amount as recorded on the books for undistributed construction expenditures.

Q. Well, then, how do you arrive at your figure of approximately \$4,000? Is that an estimate?

A. Using the recorded book figures.

Q. This Exhibit No. 195 relates to Canadian River Gas Company and Colorado Interstate Gas Company?

A. No. 195 is Colorado Interstate only.

Q. I see, and your objections or criticisms of Mr. Lusk's Exhibit No. 67 relates wholly to transactions involving Colorado Interstate Gas Company?

A. That is correct.

Q. And not Canadian River Gas Company?

A. Canadian River Gas Company is not included, no, sir.

Mr. Spencer: I don't know how much additional cross examination there will be on this exhibit, Mr. Examiner, if any, but whatever there is I would like to reserve until sometime next week.

Mr. Lange: In other words, we will defer offering the exhibit until that time.

Redirect Examination.

By Mr. Lange:

Q. Now, Mr. Schutte, in connection with your *accounting* work on this assignment in the present proceedings and with further relation to the exhibit 67 that has been presented in this proceeding by Mr. Lusk, I will ask you whether you have made a study of and have reduced that study to a written statement as to a discussion of the re-accounting for items previously expensed that are now set up and capitalized by the company?

A. Yes, sir.

Q. Is this the written statement that you have prepared in connection with that?

A. Yes, sir.

Mr. Spencer: Do you mean to say, Mr. Lange, that the company had set up these figures that you refer to? You didn't mean that, did you?

Mr. Lange: No. That is set up in Ford, Bacon & Davis'

Mr. Spencer: But not on the books of the company.

Mr. Lange: But not on the books of the company.

Q. Will you proceed, Mr. Schutte, to read that written statement?

Mr. Spencer: Before he starts reading I would like to ask a general question if I may, Mr. Lange.

Mr. Lange: Very well.

Mr. Spencer: I might say, Mr. Examiner, before I start asking the questions, the point of my questions is this: a few days ago there was read into the record with a reservation to strike in whole or in part, what I termed a treatise on the subject of original cost by Mr. Kenneth L. Smith. The Examiner has not acted upon that as yet because we haven't been prepared as yet to ask him to, but it seems to me that from the standpoint of orderly procedure in *minimumizing* the record that we ought to eliminate in so far as we can all such treatises as a matter of testimony.

If we have to resort to *treatises* and text books and what-not for support of our accounting treatment or any other kind of treatment of any other subjects, it seems to me it is a matter to be handled in briefs and to be done by argument rather than to come in here and fill up this record with long extended opinions about this or about that. The evil of it is this: As Mr. Smith comes along and puts in his conclusions on this subject, well, in order to rebut that we come along and we want two or three treatises on the same subject, let us say accountants of equal eminence, and before we get through we have yards and reams and reams of that kind of testimony in this record.

Now, I haven't read through Mr. Schutte's statement here. It may not come in that category at all. As I glance through it here it apparently deals with specific items.

The Witness: Factual.

Mr. Spencer: And factual matters rather than, let us say, scholarly or academic discussions on the subject of re-accounting.

The Witness: That's right.

Mr. Spencer: If he does that, I have no objection. Perhaps my objection wouldn't be warranted if he did go into an academic discussion of it, but I am just suggesting that to the Examiner at this time that the more of this we do the more it is going to be necessary to continue it on rebuttal.

Mr. Lange: Well, this study that Mr. Schutte has made relates specifically to this Exhibit 67 heretofore presented in evidence in this proceeding by Mr. Lusk, and is in the nature of a similar treatment to the one prepared by Mr. Lusk just this afternoon that has been submitted and I think it is definitely pertinent as rebuttal testimony on the part of the Commission and certainly is admissible and very relevant to these proceedings.

Mr. Spencer: Well, if it is that—if it is a factual statement based upon specific entries and items, then I don't object to it at all.

The Trial Examiner: Well, in just glancing through the statement it appears to me that it deals in specific amounts and specific matters. I presume all accounting studies and engineering studies perhaps might include one or two conclusions of the witness, but those matters I think are safely dealt with in a proceeding of this kind.

Mr. Lange: I will ask Mr. Schutte right at this point whether he has approached this problem entirely from an accounting standpoint in relation to this matter that he has in his written statement.

The Witness: Yes, altogether from an accounting standpoint.

Mr. Spencer: Well, let me ask one question there, Mr. Schutte. You are dealing here with specific problems relating to these proceedings all the way through?

The Witness: I am dealing here, Mr. Spencer, with the exact items shown in Exhibit 67, Statement 2, which were supported by a report made by Ford, Bacon & Davis dated April 15, 1940. The total amounts are included in the plant account in Exhibit 67 but the breakdown of those items does not appear anywhere because that report of Ford, Bacon & Davis has not been presented here.

Mr. Spencer: You have a copy of it, however?

The Witness: Yes, sir.

Mr. Spencer: Which was furnished to you, I think, through me in the first instance?

The Witness: I believe so, yes, sir.

Mr. Spencer: I would suggest this, Mr. Examiner, that the witness proceed to read the entire statement into the record without interruption and at the conclusion, counsel on this side of the table shall have the right at some subsequent time to move to strike in whole or in part as to any part or parts thereof that may seem objectionable.

The Trial Examiner: Yes, it will be so understood, Mr. Spencer. I think that is the premise we have proceeded on in all these written statements.

Mr. Lange: That is agreeable.

(Vol. LXV, pp. 9388-9405.)

EXHIBIT 196.

Docket G-124.

Written Statement Re Colorado Interstate Gas Company's Re-Accounting for Items Previously Expensed Which It Now Desires to Capitalize.

Witness Carl H. Schutte, Examiner of Accounts.

In the company's statement of original cost of Denver pipe line properties, Exhibit No. 67 in these proceedings, there is included the amount of \$284,806.00 (Statement 2, Item 8) as an Adjustment for Capital Items Charged to Expense.

This amount is now claimed to represent fixed capital additions charged to expense on the books of Colorado Interstate Gas Company because of accounting errors.

The nature and extent of such items are said to be fully described and detailed in the memorandum report by Ford, Bacon & Davis, Inc., entitled "Items Charged to Expense on the Books of Colorado Interstate Gas Company During the Period 1930 to 1939, Inclusive, Which Should Have Been Capitalized," dated April 15, 1940.

These items are summarized briefly as follows:

1. Flood and Washout Control	\$ 26,637.68
2. Rock Weighting	46,683.72
3. Cattle Guards	4,923.70
4. Bridges	8,052.93
5. Rip Rap and Revetments—River and Stream Crossings	24,400.99
6. Roads and Culverts	32,380.69
7. Gravel, Rock and Shale for Main Line	9,921.87
8. Cathodic Protection	49,935.20
9. Profile Maps	2,989.53
10. Lowering Lines	638.33
11. Spare Parts	5,623.84
12. All Other, Miscellaneous	72,617.88
Total	<u>\$284,806.36</u>

The expenditures covering these items are shown by component costs and by years in Exhibit No. 196.

1. Flood and Washout Control—\$26,637.68

Ford, Bacon & Davis, Inc. explain this item as follows:

"These improvements consist principally of building and placing water breaks, cutting spillways and ditches, contour plowing and terracing, all designed to prevent washouts, to carry off the excess surface water and retard water run off to prevent soil erosion. The work was done along the main line right-of-way and adjoining lands on slopes and in arroyos (so-called bad lands) and canyons."

The cost of this work which was started in the year 1930, and of which approximately 46% was accomplished during the years 1938 and 1939, according to Ford, Bacon & Davis, Inc. analysis, is composed of:

Labor	\$16,162.18	60.67%
Trucking	7,447.76	27.96%
Materials	1,227.74	4.61%
Other Costs	1,800.00	6.76%
Total	<u>\$26,637.68</u>	<u>100.00%</u>

The company's records show that a considerable portion of the above labor and trucking costs, particularly during recent years, was for contour plowing and terracing on lands adjacent to the pipe line right of way. The cost of such work, which may be termed both corrective and preventive when performed years after the installation of the pipe line, could in my opinion be considered only as maintenance expenses, since the work was performed to protect the pipe line by anticipating causes of failure or of possible injury to the pipe line in order to maintain the pipe line in satisfactory operating condition.

The company's records also indicate that a considerable portion was actually repair work made necessary because of prior erosion, the cost of which is definitely maintenance expense.

This work was performed primarily by the maintenance division in accordance with plans of the operating management, and the costs thereof charged to expenses consistently throughout the years, a procedure in conformity with good accounting practice and under the system of accounts in use which permitted such accounting.

It is a matter of record that such work performed during the years 1938 and 1939 was considered as maintenance expense by the management, and that the accounting treatment thereof as expense was with management's knowledge and approval is further evidenced by copies of letters received from Mr. J. O. Shields, Assistant Treasurer of the company, received in answer to examiners' inquiries.

February 14, 1940

Mr. Carl H. Schutte, Examiner of Accounts, Federal Power Commission, Central Savings Bank Building, 15th and Arapahoe Streets, Denver, Colorado.

Dear Sir: With reference to your letter of February 1st, relative to the increase in the amount charged to Account 388-D in the year 1938, over 1937 and other previous years, we find that this increase is due to the fact that during the year 1938 the Maintenance Division carried on an extensive Flood Control program which raised the trucking expense and labor charges as a considerable amount of contour plowing was done as

well as the excavation of run-off ditches, etc., in this connection.

Trusting that the above will give you the desired information, we are,

Yours very truly,

J. O. SHIELDS,
Assistant Treasurer.

August 15, 1940.

Mr. Allen M. Early, Examiner of Accounts, Federal Power Commission, Colorado Springs, Colorado.

Dear Sir: In reply to your letter of July 10th requesting reason for increase in Account 388-D for the year 1939, we wish to advise that during the summer of 1938 it was decided to improve our roads, trails, bridges, etc., paralleling the pipe line by grading, gravelling, crushing rock, etc., and a great portion of this work was carried over into 1939. Considerable work was also done at places along the line which were eroded on account of flood water and this appears on our time books as "Water Control". This Water Control was installed in accordance with specifications furnished us by the Federal Soil Erosion Engineers.

The amount of the above was approximately \$25,750.00, the major portion of which represents labor and trucking.

Yours very truly,

J. O. SHIELDS,
Assistant Treasurer.

"Other Costs" consist of a payment in 1939 of \$1,800.00 to the Pueblo County Board of Commissioners by the company's voucher E-1-16. This item was charged to Maintenance of Compressing Station Equipment, Devine Station.

Explanation of this item given verbally by Mr. J. P. McClintock, General Superintendent, Colorado Interstate Gas Company (November 22, 1940); and by letter from Mr. R. W. Hendee, General Manager, to Mr. Leshner S. Wing, Regional Director, Federal Power Commission, dated June 28, 1940, is that the company owns a 4-inch water line ex-

tending from Pueblo, Colorado to the Devine Compressing Station. During 1939 a 6-foot brick storm sewer was built for a distance of some 200 feet outside the city limits of Pueblo. The County Board of Commissioners proposed to make an open ditch extension thereto of approximately 1800 feet, ending same in an arroyo which the company's 4-inch water line crossed. The open ditch extension would have required the moving of the company's water line, since the company owned no fee right of way in connection therewith, and would therefore have had to acquiesce as to the open ditch construction. The estimated cost of moving the water line was approximately \$3,000.00, and the estimated cost of completing the drainage sewer as a 6-foot brick closed sewer was approximately \$3,600.00. The company, after a study of the situation, offered to pay half the cost of the brick sewer extension in order to protect its existing water line. This offer was accepted and the company paid \$1,800.00 to the Pueblo County Board of Commissioners as a contribution in connection with extending the 6-foot brick sewer.

Under the system of accounts in use at the time of this expenditure (Pennsylvania Code), the cost of moving the line was classified as a maintenance expense, as it is analogous to changing transmission lines (Page 86, account No. 386).

Under the Federal Power Commission Uniform System of Accounts for Natural Gas Companies, effective January 1, 1940, the cost of moving lines is also classified as maintenance expense. (See page 93, par. 2, re: Maintenance, in which the rearranging and changing the location of property not retired is one of the specific items mentioned.)

It follows logically that since the cost of moving the line would have been an expense, the cost when incurred for something which was equivalent to moving of a line would also be classified as an expense.

The accounting treatment accorded this expenditure by the company, when incurred, not only appears to have been correct, but no alternative treatment was possible.

2. Rock Weighting—\$46,683.72

Explanation given by Ford, Bacon & Davis, Inc. is as follows:

"To insure against the danger and possible interruption of service resulting from washouts, the Company, in addition to flood control measures, weights down its lines by piling rock on the backfill. Where the ground slopes sufficiently to allow water to follow the pipe line ditch, preventive measures are necessary to divert the water way from the backfill. Rock weighting not only serves to divert water but the added weight on the pipe line overcomes the tendency of floating. Rock weighting must not be confused with repairing and filling up gaps and holes in the backfill. This latter work is a maintenance job of a corrective measure which has not been considered in the amount shown for rock weighting."

The cost of this work which was started in the year 1930, and of which approximately 38.5% was accomplished during the years 1938 and 1939, according to Ford, Bacon & Davis, Inc. analysis, is composed of:

Labor	\$27,477.41	58.86%
Trucking	19,135.31	40.99%
Material	71.00	0.15%
Total	<u>\$46,683.72</u>	<u>100.00%</u>

Despite the statement contained in the explanation of Ford Bacon & Davis, Inc. that rock weighting lines versus repairing and filling up gaps in the backfill must not be confused, the examination of time and trucking tickets disclosed that such confusion does exist. In fact, many of the tickets examined bore very vague and indefinite explanations as to the exact nature of the work performed, leaving much to one's imagination as to whether rock weighting was actually placed on top of the backfill as a means of retarding or preventing subsequent erosion, or whether part of the original backfill had eroded and the work performed consisted of repairs thereto.

The cost of this work, similar to that in connection with

flood control, may be termed both corrective and preventive when performed years after the installation of the pipe line, and could, in my opinion, be considered only as maintenance expenses, since this work also was performed to protect the pipe line by anticipating causes of failure or of possible injury to the pipe line and in order to maintain the pipe line in satisfactory operating condition.

As in the case of flood control work, this work was performed primarily by the maintenance division in accordance with plans of the operating management, and the costs thereof were charged to expenses consistently throughout the years, a procedure in keeping with good accounting practice and, in my opinion, the only treatment possible under the system of accounts then in use. The description of the work performed, as given by Ford, Bacon & Davis, Inc., indicates that this type of work may have been considered as betterments by it.

The system of accounts (Pensylvania Code) in use during the period this work was performed defines (page 44) betterments as physical changes in structures or equipment, the object of which is to make the structures or equipment affected more useful or of greater capacity than they were at the time of their original installation. Such results do not appear to have been accomplished through the performance of this work.

The Federal Power Commission Uniform System of Accounts for Natural Gas Companies, effective January 1, 1940, designates as Maintenance Costs (page 93) the cost of "Restoring the condition of property by wear and tear, decay, or action of the elements."

3. Cattle Guards—\$4,923.70

Explanation given by Ford, Bacon & Davis, Inc. is as follows:

"Cattle Guards eliminate old type gates which are frequently left open, thus leaving the Company liable for damages, and also save time formerly consumed by Company employees in stopping and opening and shutting gates."

The cost of this work, which was started in the year

1930, according to Ford, Bacon & Davis, Inc., analysis, is composed of:

Labor	\$3,434.87	69.76%
Trucking	1,133.02	23.01%
Materials	355.81	7.23%
Total	<u>\$4,923.70</u>	<u>100.00%</u>

This work was also performed primarily by the maintenance division, generally utilizing scrap materials. The capitalization of labor and trucking costs for the installation of such materials to which no value has been assigned is always questionable.

Cattle guards as installed constitute very minor items of depreciable property and were in effect replacements of other minor items of property.

As such, it is quite in keeping with sound accounting practice to expense such costs, and was permitted under the system of accounts in use. It is a matter of record that this accounting treatment was in accordance with the discretion of the management as exercised under such system of accounts.

4. Bridges—\$8,052.93

Ford, Bacon & Davis, Inc. explanation of this item is as follows:

"Timber bridges make it possible for line walkers and maintenance crews to save time by avoiding wide detours around canyons. Expenses of repairs and maintenance of old bridges were not considered in this study."

The cost of this work, which was started in the year 1930, and of which approximately 74% was accomplished during the year 1930, according to Ford, Bacon & Davis, Inc. analysis is composed of:

Labor	\$1,549.78	19.25%
Trucking	545.28	6.77%
Material	432.84	5.37%
Work Orders	\$5,525.03	68.61%
Total	<u>\$8,052.93</u>	<u>100.00%</u>

Work Order costs of \$5,525.03, assigned to expenses during the year 1930, were:

(a) Work Order No. 19, under which expenditures made in connection with assisting Union County, New Mexico, for the construction of a bridge over Corrumapa Creek, were accumulated. Expenditures made by the company in connection therewith were \$2,767.33, of which \$2,750.00 was, according to the records, a cash donation to Union County, New Mexico. Private payroll charges of \$4.81 are included in the Work Order cost but excluded from Ford, Bacon & Davis, Inc. analysis.

(b) Work Order No. 20, under which expenditures made in connection with assisting Union County, New Mexico, for the construction of a wagon bridge over Travasea Creek, were accumulated. Expenditures made by the company in connection therewith were \$2,786.55, of which \$2,750.00 was, according to the records, a cash donation to Union County, New Mexico. Private payroll charges of \$24.04 are included in the Work Order cost, but excluded from Ford, Bacon & Davis, Inc. analysis. Thus, these Work Order costs per books aggregate \$5,553.88, which amount less \$28.85 private payroll charges equals the \$5,525.03 figure of the Ford, Bacon & Davis, Inc. analysis.

The authorization for Work Order No. 19 bears the following explanation:

"We contemplate assisting Union County, New Mexico, with building a bridge over Corrumapa Creek by a cash donation of \$2,750.00 and some preliminary expense.

Location—Corrumapa Creek Union County, N. M."

The Work Order was signed by J. P. McClintock, and approved by E.G.H.

A similar explanation was noted on the authorization for Work Order No. 20, except that it was for the bridge over Travasea Creek.

A notation was made on a letter attached to the company's voucher A-47, 1930, as follows:

"Charge to Investment, Main Line Construction through Work Orders 19 and 20 because it is for the purpose of making our lines more accessible."

This notation was initialed by L.H.S. The Work Orders were closed and the costs thereof transferred to expense by voucher D-427, April 1930, which voucher was approved by L.H.S., thereby indicating a change of opinion by L.H.S. as to the propriety of capitalizing these expenditures.

The facts are that each of these two bridges is located approximately one mile from the pipe line right of way on county roads, and is owned by Union County, New Mexico. The bridges were not constructed until after the company's pipe line had been completed.

The contributions made to aid in the construction of these bridges cannot be classed as costs of units of property, nor can it be said that due to such expenditures, the company's property is any more useful, more efficient, of greater durability, or of greater capacity. It appears, therefore, that the charging of such costs to expenses or surplus was appropriate.

Other bridge costs now sought to be capitalized are composed primarily of labor and trucking charges, the amounts of which were apparently not considered of sufficient importance to be accumulated by individual jobs under work orders, and were expensed in accordance with the company's general policy.

5. ~~Rip Rap and Revetments—River and Stress Crossings—~~
~~\$24,400.99.~~

Ford, Bacon & Davis, Inc. explain this item as follows:

"Improvements of this type consist of placing rip

rap on stream banks and building of revetments to prevent soil erosion and resulting washouts. After any appreciable rainfall, Company field crews find many new possible danger spots which require revetment and rip rap jobs."

The cost of this work, which was started in the year 1930 and has been carried on consistently since, according to Ford, Bacon & Davis, Inc. analysis, is composed of:

Labor	\$ 5,776.14
Trucking	2,480.84
Work Orders	16,144.01
	<hr/>
	\$24,400.99
	<hr/>

Analysis of the Work Order costs included above and assigned to component costs, results in component costs as follows:

	Per Ford, Bacon & Davis, Inc. Analysis	Revision	Component Costs as Revised	Ratio of Total
Labor	\$ 5,776.14	\$ 5,050.07	\$10,826.21	44.37%
Trucking, exca- vating, and oth- er machine rent- als, automobile expenses, etc.	2,480.84	6,943.33	9,424.17	38.62%
Materials		4,150.61	4,150.61	17.01%
Work Orders	16,144.01	(16,144.01)		
Totals	\$24,400.99	\$	\$24,400.99	100.00%

The performance of this character of work under work orders commenced in the year 1934, and accounts for approximately 66% of the total cost of such work which is now sought to be capitalized.

By individual work orders this work consisted of the following specific jobs:

Work Order No. 166—\$4,353.47 Work order authoriza-
tion reads:

"Repairing banks of Sand Creek to prevent further erosion at the 20" gas line."

This work order was closed in June 1934, and the accumulated costs thereunder aggregating \$3,374.18 were transferred to expense. This was in accordance with notation on the work order, signed by J. P. McClintock, General Superintendent and approved by "T", General Manager, which read, "Please charge to Transmission Line Expense." In 1935, the work order was reopened and additional charges of \$979.29 were accumulated, which amount was assigned to expenses in July 1935. The work performed under this work order consisted largely of hauling brush from Black Forest to Sand Creek and excavation at Sand Creek.

It is indicated from the text of the explanation of this work order, as well as from the character of the expenditures, that the work performed included that of repairing damages caused by erosion.

Work Order No. 173—\$1,021.08 This work order authorization reads:

"Strengthen Line at Jimmie Camp Creek Crossing and Installing Brush Breaker and Sloping Creek Bank to Prevent Further Erosion."

This authorization was signed by J. P. McClintock, General Superintendent, and approved by "T", General Manager, and was dated June 1, 1934.

This work order was closed in August 1934 and the costs accumulated thereunder, aggregating \$1,021.08, were transferred to expense. These costs as recorded were:

Labor	\$ 509.69
Trucking	399.61
Materials	50.82
Automobile Expenses, etc.	60.96
Total	<u>\$1,021.08</u>

Trucking charges include the hauling of brush and trees to the job and rental for an excavator. Material costs include expenditures for trees, explosives and cable.

It is also indicated from the text of the explanation of this work order, as well as from the character of the expenditures, that the work performed included that of repairing damages caused by erosion.

It is noted that piling and rip rap were also placed at the Jimmie Camp Creek crossing during the year 1931. Labor costs for this work were \$352.52, and were charged directly to expenses as incurred.

Work Order No. 235—\$5,764.21, of which \$64.36 was originally capitalized and \$5,699.85 expensed. Work order authorization reads:

“Strengthening Main Line at Huerfano River Crossing.”

This work order was closed in November 1936 and of the costs accumulated thereunder which totaled \$5,764.21, \$64.36 covering the cost of two 10-inch river clamps and bolts was capitalized, and the balance \$5,699.85 was expensed. The component costs of this work were recorded as follows:

Labor	\$1,004.90
Material	2,646.40
Trucking—excavating machine rental, pile driving, etc	1,777.88
Miscellaneous	335.03
Total	<u>\$5,764.21</u>

Material costs consist principally of the cost of:

50—70# steel rails	\$ 339.14
190—57# " "	1,162.80
65—52# " "	364.65
Plates, bolts, etc.	62.80
1,550 ft. 2-inch mesh wire fence, 72 inches high	463.65

The work performed consisted of placing and bracing the rails and affixing the wire fence thereto, sloping the river bank and backfilling, principally upstream from the pipe line. The cost of two 10-inch river clamps installed on the pipe line in connection with this work was capitalized.

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The work order completion notice, dated October 30, 1936, signed by J. P. McClintock, General Superintendent, has the following notation under remarks:

"Please charge the total cost to Main Line Maintenance Expense."

Work Order No. 263—\$1,086.34, of which \$1,074.30 was charged to expenses. The work order authorization reads:

"Strengthening La Junta Lateral at Apishapa River Crossing."

This work order was closed in July 1937. The component costs thereof as recorded were:

Labor	\$ 326.66
Material—principally 51	
30-ft. steel rails	334.99
Trucking	192.05
Excavator rental	162.74
Miscellaneous	69.90
Total	<u>\$1,086.34</u>

Some of the labor tickets are marked "help repairing 10 crossing." The work performed consisted principally of placing the rails as piling and the hauling and placing of trees, brush and other backfill materials.

The work order completion notice, dated June 30, 1937, signed by J. P. McClintock, General Superintendent, has the following notation under remarks:

"Please charge to Maintenance Expenses."

Work Order No. 268—\$862.04. The work order authorization reads:

"Strengthening Line at Timpas Creek with Steel Piling and Rip Rap."

The work order was closed in September 1937, and the costs accumulated thereunder charged to expenses. The component costs of the work were recorded as follows:

Labor	\$222.96
Materials, principally sand and cement, \$90.89, and 7 30-ft, 65# steel rails, \$87.93	193.08
Trucking	195.09
Tractor & excavator charges	174.34
Miscellaneous	76.57
Total	<u>\$ 862.04</u>

The work order completion notice dated July 31, 1937, signed by J. P. McClintock, General Superintendent, has the following notation under remarks:

"Please charge to Maintenance Expenses."

Work Order No. 298—\$969.18. The work order authorization reads:

"Steel Fence breakers at a dry Arroyo, southeast of Fountain for strengthening the line."

The work authorized thereunder was performed in January 1938 and the costs accumulated under this work order were transferred to expenses in March 1938. The component costs of this work were recorded as follows:

Labor	\$ 333.43
Materials, principally 150 feet of 2-inch mesh 72 inches high, chain link fence, and 25 30-foot 25# steel rails	249.91
Trucking and use of excavator and pile driver	334.02
Miscellaneous	51.82
Total	<u>\$ 969.18</u>

The work order completion notice dated February 28, 1938, signed by J. P. McClintock, carries the following notation under remarks:

"Please charge Transmission Line Expense."

Work Order No. 334—\$1,454.93. This work order covered the

“Strengthening 22 inch line at the Apishapa River Crossing.”

The work authorized thereunder was accomplished during the months of September, October and November 1938, and the costs accumulated under this work order were transferred to expenses in December 1938. The component costs of this work were recorded as follows:

Labor	\$ 434.37
Material, principally 61 30-foot 45# rails, 122 feet of 6-ft. fencing and 3,143 bd. feet of lumber	448.98
Trucking, use of pile driver and excavator	438.99
Automobile and employee expenses	132.59
Total	<u>\$1,454.93</u>

The work order completion notice dated December 5, 1938, signed by Mr. McClintock, carries the notation as follows:

“Please charge to Maintenance of Transmission Line.”

Work Order No. 347—\$728.21. This work order authorized

“Strengthening 20 inch main line at Bayou Guleh, 1/4 mile north of Gate 27.”

The work authorized thereunder was accomplished in April 1939 and the costs accumulated therefor were transferred to expenses in May 1939. The component costs of this work were recorded as follows:

Labor	\$ 272.06
Materials, principally steel rails, bars and bolts	201.64
Trucking, use of pile driver, etc.	186.38
Employee expenses	68.13
Total	<u>\$ 728.21</u>

The work order completion notice dated June 6, 1939, signed by J. P. McClintock, General Superintendent, carries the following notation:

"Please charge to Maintenance Expense."

Other costs of placing rip rap and installing revetments were not accumulated under work orders, but in general covered costs similar to those incurred under work orders:

It is obvious from the notations on the work orders as quoted that the operating management of the company considered this character of work as maintenance, and that in exercising its discretion under the system of accounts then in use, consistently classified such expenditures as expense.

Capitalizing the costs incurred in building revetments and placing of rip rap, when incurred several years subsequent to the completion of initial construction, and particularly when placed on property not owned or leased by the company, would be very questionable accounting treatment for such costs. Generally such work is both corrective and preventive, in that it repairs damages caused by erosion as well as retards or prevents subsequent erosion.

The expensing of such costs, which practice was consistently followed by the company, not only conforms with good accounting procedure and is permitted under the system of accounts used by the company, but has also been subject to examination in the course of annual audits performed by members of the Auditing Department of Standard Oil Company of New Jersey. Inasmuch as such audits have caused no change in the company's policy of expensing such costs, the only possible conclusion is that this was the approved practice.

6. Roads and Culverts—\$32,380.69.

Explanation of this item by Ford, Bacon & Davis, Inc., is as follows:

"Maintenance crews and line patrols require adequate road facilities to traverse the lines. When heavy machinery is necessary for making line repairs, roads for access to the lines are required."

The company's road program calls for widening, extending and graveling, carried out each year, to insure safe and adequate roads in close proximity to the pipe line. The road from Canyon to Apishapa, known as the Dolan Highway, approximately 33 miles long, was originally constructed by the pipe line crews in 1928. The widening and extending of roads often necessitates new and wider culverts."

The cost of this work charged to expense by the company from January 1, 1930 to December 31, 1939, and of which approximately 49% was accomplished during the years 1938 and 1939, according to Ford, Bacon & Davis, Inc. analysis, is composed of:

Labor	\$15,227.69	47.03%
Trucking	8,753.18	27.03%
Materials	555.98	1.72%
Work Orders	7,843.84	24.22%
	<u>\$32,380.69</u>	<u>100.00%</u>

Analysis of the work order costs included above and assigned to component costs, results in component costs as follows:

	Per Ford, Bacon & Davis, Inc. Analysis	Revision	Component Costs as Revised	Ratio to Total
Labor	\$15,227.69	\$2,250.72	\$17,478.41	53.98%
Trucking	8,753.18	3,607.07	12,360.25	38.17%
Materials	555.98	1,130.82	1,686.80	5.21%
Automobile & Em- ployee Expense		855.23	855.23	2.64%
Work Orders	7,843.84	(7,843.84)		
Total	<u>\$32,380.69</u>		<u>\$32,380.69</u>	<u>100.00%</u>

This character of work, accomplished under work orders during the year 1938, accounts for approximately 22% of the total cost of such work which is now sought to be capitalized.

The authorization for Work Order No. 328 reads:

"Repairing Pipe Line in the Apishapa District."

Work under this order commenced in August 1938, and the accumulated costs thereunder totaling \$5,817.34, including \$177.24 private payroll charges which are excluded in the present claim for capitalization, were transferred to expenses in November and December 1938.

A notation on the work order completion notice, dated November 5, 1938, signed by J. P. McClintock, General Superintendent, and approved by R.W.H., General Manager, reads:

"Please charge to extraordinary expense."

The authorization for Work Order No. 336 reads:

"Repairing Canon Picketwire Hill Road."

Work under this order commenced in October 1938, and the accumulated costs thereunder totaling \$2,203.74 were transferred to expenses in December 1938, in accordance with notation on the work order completion notice dated January 6, 1939, signed by J. P. McClintock, General Superintendent, which read:

"Transmission Line Expense."

The maximum annual expenditure for general road work, exclusive of specific jobs covered by work orders, was in 1931, when \$6,735.75 was expended for that purpose and charged to expenses. An examination of all labor charges included in the re-accounting for 1931, amounting to \$4,637.76 for this character of work, indicated that a considerable part of such labor costs was incurred on the road said by Ford, Bacon & Davis, Inc. to have been constructed by the pipe line crews in 1928.

It is not indicated from any of the labor and trucking tickets covering road work, which were examined, many of which describe the work performed as "Hard gravel—main line road," that the cost of such work should be considered as capital expenditures.

It is indicated in the explanation relating to this char-

acter of work that existing culverts were replaced by new and wider culverts. No retirements were identified for such replacements if made.

7. Gravel, Rock and Shale for Main Line—\$9,921.87:

This item is explained by Ford, Bacon & Davis, Inc., as follows:

"This item includes the cost of rock, gravel and shale used in rock weighting the pipe lines and for road building."

The facts are that this item is of the identical character of items 2, Rock Weighting, and 6, Roads and Culverts.

The labor and trucking tickets covering the items now designated as additional plant costs, in general identify the work performed so vaguely that the assignment of such costs to plant accounts at any time could be very questionable. Obviously the reason these particular costs are re-accounted for in a separate caption, instead of being included in items 2 and 6, is that identification thereof as between rock weighting or road work was impossible.

Labor and trucking tickets scrutinized bore descriptions of work performed as follows:

"Getting out rock for Main Line."

"Hauling rock on Main Line."

"Hauling rock to fill in along line."

"Build up road."

"Fill in Main Line Road with Rock."

To classify costs so described as Plant Additions appears to be entirely too liberal an interpretation of instructions contained in any system of accounts.

The cost of this work, charged to expense by the company during the years 1932 to 1940, inclusive, and of which approximately 81% was accomplished during the years 1938 and 1939, according to Ford, Bacon & Davis, Inc. analysis, is composed of:

Labor	\$2,481.63	25.01%
Trucking	7,301.89	73.59%
Material	138.35	1.40%
Total	<u>\$9,921.87</u>	<u>100.00%</u>

8. Cathodic Protection—\$49,935.20.

Ford, Bacon & Davis, Inc. give the following explanation for this item:

"Cathodic protection is definitely a major improvement insuring a more durable pipe line system. Subsequent to January 1, 1940, the Company will capitalize all expenditures for this class of improvement. Work Order No. 350 in 1939 covered a soil resistance survey. These tests and expenditures are a usual forerunner for cathodic protection, but nevertheless have not been included as part of the capital expenditure. This amounted to \$10,040 in 1939."

The work of installing cathodic protection commenced in the year 1935 and has been carried on continuously since. Installations to December 31, 1939 were of the character known as the "Zinc Rod" type. Practically all of this work has been performed under work orders and the largest expenditures therefore made in the year 1937, when \$21,416.45 was recorded for such work.

That the assignment of such costs to expenses was not due to accounting errors but definitely because of the company's policy, is evidenced by the circumstances in connection with \$2,228.58 of such costs accumulated under the company's Work Order No. 282, in 1937.

Under this work order, zinc rod type of cathodic protection was installed, according to accounting data and engineering maps, on 8,800 feet of 6-inch pipe line within the section to be maintained by The Arkansas Valley Natural Gas Company. The total cost of this work was charged to Account No. 385-D, Maintenance of Transmission Line Equipment, at the suggestion of Mr. F. H. Lerch, Jr., then Vice President of the company.

The title of this specific work order indicated that the cost of the work to be performed thereunder was chargeable to The Arkansas Valley Natural Gas Company (presumably in accordance with the terms of the agreement of December 5, 1935) and the work order completion notice, dated November 10, 1937, signed by Mr. J. P. McClintock, General Superintendent, bore the following notation under remarks:

"Please charge to Arkansas Valley Natural Gas Company, maintenance expense on 6" line from Arkansas Valley River Crossing to Fort Lyon."

The cost of work orders is normally charged by the Respondent as recommended by Mr. McClintock. However, in this instance, Arkansas Valley Natural Gas Company objected to the charge, as evidenced by copy of a telegram dated January 28, 1938, from the Colorado Springs office to the New York office, in which the recommendation of Mr. F. H. Lerch, Jr., then Vice President of Colorado Interstate Gas Company, as to the disposition of the charge was requested. In Mr. Lerch's reply of the same date, he suggested that the charge be made to Colorado Interstate Gas Company as similar items in the past, which had been expensed.

This indicates that the company's management knew of and approved the practice of expensing such costs, and it is accordingly obvious that such expensing of the cost of installing zinc rod cathodic protection is not due to accounting errors but is in keeping with the management's policy.

The installation of cathodic protection since January 1, 1940, according to Mr. Lusk's testimony of November 13 and 27, per Official Stenographer's Reports, Volume IX, page 1276, commencing at line 13, and Volume XVII, page 2419, lines 24 and 25, is of a different type. The installation under Work Order No. 360 required changes in the telephone line, installation of a 2300-volt and 10-volt power lines on the telephone pole line, the installation of 1½ kva transformers, and rectifiers.

The installation of cathodic protection under Work Order No. 361 required the erection of structures to house two

Jacobs Special Natural Gas Engines which provide the electric energy necessary for protection and installation of a 10-volt distribution line and rectifiers.

Thus, the capitalization of the costs of providing this protection is not merely a change in the company's policy with respect to such costs, but concerns an entirely different type of cathodic protection from the physical property aspect.

9. Profile Maps—\$2,989.53.

This item is explained by Ford, Bacon & Davis, Inc., as follows:

"Profile maps are considered as an investment in maps, drawings, etc. Ordinarily, this would be part of engineering costs if made during construction. These drawings were apparently not made and were not necessary in that period; but later were found necessary and represent costs in addition to the usual engineering costs."

This work was performed under Work Order No. 270, during the years 1938 and 1939, but utilizing spare time of various employees of the company's engineering division.

Inasmuch as profile maps appear to have been unnecessary during the period of pipe line construction, and for a long period thereafter, the present preparation thereof appears to be entirely for operating purposes; therefore, the cost of repairing such profile maps appears to be an operating cost rather than a plant cost.

10. Lowering Lines—\$638.33.

The explanation given by Ford, Bacon & Davis, Inc., for this item is as follows:

"Lowering the pipelines to prevent washout and possible break in the river, stream, and so-called 'dry' gulch crossings, is distinctly a betterment."

This charge represents the cost of Work Order No. 296, which covers "Lowering two 10-inch Lines across the St. Charles River," the accumulated costs totaling \$638.33 of

which were transferred to expenses in March 1938, in accordance with notation on the Work Order completion notice signed by J. P. McClintock, General Superintendent, which read:

"Please charge Transmission Line Expense."

The component costs of this work as recorded were:

Labor	\$ 56.54
Material (Explosives)	3.93
Trucking & Excavating	484.59
Automobile & Employee Expenses	93.27
	<hr/>
Total	\$ 638.33
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The lowering of lines is more or less a continuous process in that the streambeds are constantly subject to erosion, and are being lowered, which necessitates the lowering of the pipe lines crossing such streams and arroyos.

The usual procedure followed by the company with respect to the lowering of lines has been to retire materials removed, capitalize new materials installed, and expense at least an amount estimated for excavating the original trench.

In the present instance, the request to now capitalize the entire cost of the job would place in the plant account a duplicate cost of trenching and backfilling—that is, such cost thereof as was capitalized at the time of initial installation—plus the amount expended to excavate and backfill a like trench, without retirement of such initial cost, which procedure is obviously incorrect.

Under the system of accounts in use at the time of these expenditures (Pennsylvania Code), the cost of changing transmission lines was definitely classified as maintenance expense under account No. 386 (page 86).

Under the Federal Power Commission Uniform System of Accounts for Natural Gas Companies, effective January 1, 1940, the cost of "Rearranging and changing the location of property not retired" is also definitely classified as maintenance expense (page 93).

11. Spare Parts—\$5,623.84.

Ford, Bacon & Davis, Inc. explanation of this item is as follows:

"Spare parts for machinery and equipment, whether carried in the supply inventory or installed in the pipe line system, represents a cash investment. Their availability for use or actual use may represent a saving in time far in excess of the actual money value involved."

The costs now said to be capital expenditures, practically all of which are incurred for parts, were incurred as follows:

Year 1936	\$ 773.80
Year 1937	136.97
Year 1939	4,713.07
	<hr/>
Total	\$5,623.84
	<hr/>

The disbursements covering the above items, which were charged to expenses as made, were reviewed and consist primarily of repairs to or repair parts for engines and compressors. In no instance does it appear that the disbursement covers what could be termed a retirement unit. The disbursements cover a considerable quantity of gaskets, packing, springs and the like, which when installed could not possibly be considered a capital addition, and to account for same as replacements would require the retirement of the replaced parts.

The largest individual items included in this re-accounting are:

4 cylinders with piston pins and rings complete	\$ 892.00
4 piston pin boxes	76.00
4 connecting rod wedges	21.00
Sundry pipe and connections, freight, etc.	101.04
	<hr/>
	\$1,090.04
	<hr/>

These were for Bruce-MacBeth Engines at Canon.

92 steel piston rings, 8 scraper
rings, 56 sets points, etc.,
for compressors and engines
at Canon \$ 461.42

The cost of such repair or spare parts as are included in this item may be properly assigned to the supply inventory account if held for use, or to the appropriate maintenance account if immediately used. If included in the supply inventory, such costs are automatically given consideration in connection with the company's working capital requirements.

Except when retirement units, such costs are not properly capitalizable, and to capitalize same as replacements or renewals, which they obviously are, requires the retirement of the cost installed of the unit replaced. If capitalized without recording the retirement of the previously existing part, a duplication of the cost of such part appears in the plant account.

12. All Other, Miscellaneous—\$72,617.88.

This item is explained by Ford, Bacon & Davis, Inc., in the following manner:

"All other, Miscellaneous Classification includes a multitude of small charges, such as landscaping at stations, villages and camps; curbing and walks, chicken houses, screen for porches, pipe racks along the main line, gate boxes; linoleum for dwellings; trees and shrubbery, and tools. There are also charges for hauling and placing earth fill at stations, camps and villages and gravel for walks. The completion details, otherwise known as the clean up of the three compressing stations, for some reason were not included in work orders. All items, including safety guards around engines, earth fill and charges for general clean-up were expensed."

The Ford, Bacon & Davis, Inc. analysis shows the component costs accumulated for the above as follows:

Labor	\$37,240.29	51.28%
Trucking	11,563.19	15.92%
Materials	9,284.61	12.79%
Work Orders	14,529.79	20.01%
Total	<u>\$72,617.88</u>	<u>100.00%</u>

Ford, Bacon & Davis, Inc., statement that this item covers a multitude of small charges is not an exaggeration. Costs of materials included herein, are as small as a charge for a small piece of sheetrock at a cost of fourteen cents. Numerous items costing less than one dollar are included. Many of the items included appear to be minor replacements and renewals. The cost of repairs of equipment, such as "bushings for plow @ \$0.89, welding end on grader at \$0.79" appear. The cost of leak clamps and of repairing leaks along the Arkansas Valley lines are included. Material costs for grass and clover seed, fertilizer, trees and shrubbery at the several stations and camps total approximately \$750.00, such purchases being included in almost every year including 1939. The labor and trucking costs for such items were not all identified.

The cost of small tools herein included amounts to approximately \$450.00 and includes the cost of such items as snow shovels, screw drivers, hack saw frames, steel drills, filers, rules, a spittoon; items which normally have a very short life. Substantially all of the tool costs are in amounts of from \$1.00 to \$10.00 each.

The costs of making tool boxes, workbenches, compressor repair parts and many other items too numerous to mention are likewise included in this re-accounting.

The Federal Power Commission Uniform System of Accounts for Natural Gas Companies, under Components of Construction Cost, Note A (page 40) says:

"The cost of individual items of equipment of small value (for example \$10 or less) or of short life, including small portable tools and implements, shall not be charged to gas plant accounts unless the correctness of the accounting therefor is verified by current inventories. The cost may be charged to the appro-

appropriate operating expense or clearing accounts, according to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as a part of the cost of the constructed unit."

The company's policy of charging the cost of minor items of property to expenses conforms with the instruction quoted above.

Costs now re-accounted for which were accumulated under work orders total \$14,529.79, and by specific work orders are as follows:

Work Order No.	Year 1930	Year 1931	Year 1936	Year 1937	Year 1938
8	\$ 345.77				
35	1,148.80				
40		\$ 503.16			
50		485.99			
101		7,274.60		\$ (552.96)	
167			\$343.20		
211			113.10		
269				2,416.60	
285				1,737.42	
290				625.57	\$88.53
Total	\$1,494.57	\$8,263.75	\$456.30	\$4,266.64	\$88.53

Work Order No. 8 Colorado Springs Lateral—\$345.77. The total cost of this work order was \$524.33, and consisted principally of traveling expenses, hotel bills and entertainment. By Voucher No. L-271, November 1930, this amount was transferred to Plant Account No. 226 D—Transmission Line Equipment; then by Voucher No. L-272, November 1930 (the very next voucher) this amount was removed from the above Plant Account and charged to Gas Expenses, Account No. 381 D—Other Transmission System Supplies and Expenses.

Some of the expenditures charged to this work order were incurred during 1929. Although the work order authorization indicates that the work to be performed there-

under is in the nature of "Preliminary Surveys and Maps," the expenditures made do not appear to be for that type of work. A notation on the work order signed by J. P. McClintock reads:

"The Colorado Natural Gas Co. have a contract to furnish Gas to the City of Colorado Springs. Expense? Transfer all material."

Construction of the Colorado Springs Lateral commenced in June 1931 under Work Order No. 119. Miscellaneous labor costs of \$54.07 incurred in 1928 and originally recorded on Ford, Bacon & Davis, Inc. books were transferred to the Colorado Springs Lateral Plant Account, but none of the costs accumulated under Work Order No. 8 were then re-accounted for.

Inasmuch as it appears that expenditures made under Work Order No. 8 were in the nature of costs in connection with negotiations, rather than actual preliminary work in connection with the Lateral, the expensing of such costs upon abandonment of negotiations appears to be correct treatment thereof.

Work Order No. 35. Strengthening C. F. & I. Lateral at St. Charles River Crossing—\$1,148.80. Work performed under this work order consisted of driving 22- and 30-foot Red Spruce Piling. Material costs amounted to \$637.27 and labor costs \$511.53. The work was performed during the period December 1929 to March 1930, and the costs thereof were transferred to expenses in September 1930.

The river crossing was constructed in 1928 as a part of the C. F. & I. Lateral.

The expensing of the costs of Work Order No. 35, as recorded by Voucher J-420, was approved by L.H.S.

Work Order No. 40. Wrecking Camp and Hauling Fixtures, Equipment and Machinery to Storage at Devine Warehouse—\$503.16. Labor costs under this work order amounted to \$510.88, and net salvage of miscellaneous materials was a credit of \$7.72, resulting in the net amount of \$503.16 as above. All of the expenditures for this work were incurred in December 1929.

Work Order No. 50. Repairing Telephone Line from Main Line to Colorado Springs. Replacing Poles. Line known as Colorado Springs Cutoff—\$485.99. The work performed under this work order was accomplished during the month of July and August, 1930 at a total cost of \$594.50, of which \$108.51 covered private pay roll charges, which amount is excluded in the present re-accounting. Material costs were \$160.10, principally for 30 20-foot, seven 30-foot and one 35-foot poles. Trucking charges were \$160.00 and general pay roll charges were \$111.34.

The retirement of poles replaced, as is indicated by the work order title, is not a matter of record.

Work Order No. 101. Drilling Water Wells at Canon Station, Canon Station Water Supply.

Amount expended in 1931	\$7,889.49
Transferred from Expense to Plant Account in 1937 (Field Well No. 4)	552.96
	<hr/>
	\$7,336.53
Less: Private pay roll excluded from present claim	614.89
	<hr/>
Amount now claimed as Plant Cost	\$6,721.64

Six water wells were drilled during the year, 1930 in connection with the construction of the Canon Compressing Station. The cost of these wells to December 31, 1930 was \$19,606.91, all of which was capitalized. The recorded cost of Wells Nos. 1, 2, 5 and 6 was retired by the company in 1939, these wells having been abandoned. Thus the cost of wells Nos. 3 and 4, both small producers, remains in the Plant Accounts on the company's books as of December 31, 1939.

Four other wells were drilled at the station site during the years 1932, 1934 and 1936, according to a letter dated July 18, 1939 to Mr. J. P. McClintock, General Superintendent, from J. W. Hopkins, Chief Engineer, Canon Compressing Station, the costs of which were not assigned to Plant Accounts, as these wells were unproductive.

Wells drilled under Work Order No. 101, except for Adam Arnett Well No. 4, were likewise found unproductive, and the costs thereof accumulated under this work order were also expensed in the year 1931. The cost of drilling the Adam Arnett Well No. 4, however, was subsequently transferred from expenses and charged to Plant Accounts in connection with additional wells drilled under Work Order No. 269 in 1937. This amount so capitalized consisted of:

208 Ft. 6-in. of 8 1/4" casing	\$282.96
Drilling*	190.00
Use of tractor for drilling	70.00
Miscellaneous expenses	10.00
Total	<u>\$552.96</u>

It is therefore obvious that the cost of the only productive well drilled under this work order was capitalized and only the cost of unproductive prospecting expensed.

The expensing of the drilling costs of abandoned unproductive or incomplete wells appears to be not only in accordance with the policy continually followed by the company in the exercise of its choice as permitted under the system of accounts, but also the preferable treatment of this character of cost in accordance with sound accounting principles.

An alternative method would be to charge such costs to a deferred expense account, and subsequently amortize such costs by charges to appropriate expense accounts.

Although the cost of prospecting for water in advance of the construction of a compressor station could be capitalized as preliminary engineering or construction expenses, since such prospecting would be for the purpose of locating the station with consideration of the availability of an adequate supply of satisfactory water, the propriety of capitalizing the cost of unproductive prospecting for water years later is an unwarrantable interpretation of the instructions in the system of accounts, since such unproductive prospecting certainly adds nothing to the usefulness, efficiency, durability or capacity of the property.

Work Order No. 167. Curbing along sidewalk at Devine Station—\$343.20. The cost of the work performed under this work order was \$1,343.20 and was accomplished, apparently by utilization of the spare time of station employees, during the period February 1934 to April 1936. Of the total, \$1,000.00 was capitalized and \$343.20 expensed in accordance with notation of the work order completion notice dated September 28, 1936, signed by J. P. McClintock, General Superintendent, which reads,

"Please charge \$1,000.00 to investment and the balance \$343.20 to Station Operating Expense. (Men also maintained lawns and trees while doing this work.)"

Work Order No. 211. Lowering 8" Line on the Portland Lateral at the Fountain Creek Crossing—\$113.10. The work performed under this work order was accomplished during the months of January and February 1936 at a recorded cost of \$1,239.86, of which \$1,126.79 was capitalized and \$113.10 was charged to expenses in accordance with notation on work order completion notice dated March 31, 1936, signed by J. P. McClintock, General Superintendent, which requested such assignment of cost.

It appears that consideration was given to the initial installation costs by expensing the amount of \$113.10, since no retirement thereof was indicated in connection with the cost of lowering this line, as would be necessary if the entire cost of the lowering of the line had been capitalized.

Work Order No. 269. Prospecting for Water at Canyon Compressor Station—\$2,416.61. The cost of the work performed under this work order and transferred to Plant Accounts and Expenses in 1937 was \$3,823.12, of which \$1,383.25 was capitalized and \$2,439.87 was expensed. Private pay roll charges of \$23.26 are deducted from the amount expensed to arrive at the present claim of \$2,416.61 now said to be a proper capital charge.

The assignment of the above amounts to fixed capital and expenses are in accordance with notation on the work order completion notice dated December 10, 1937 signed by J. P. McClintock, General Superintendent, which reads:

"Charge Investment: Well No. 4 \$85.96; W. No.

6 \$785.42; Well No. 8 \$511.87. Balance of W. O. charge to expense of developing Canyon Station Water Supply. For balance of Investment see letter attached."

The letter, attached to Voucher No. M-36, December 1937, is as follows:

(Copy) Colorado Interstate Gas Company

Work Order #269—"Prospecting for Water for the Canyon Station Supply."

Colorado Springs, Colo., Dec. 9, 1937.

J. O. Shields

Work Order No. 269, cost of Prospecting for Water for the Canyon Station Supply. During the development of this water we started in with the well drilled on Work Order #101, being Adam Arnett Well Number 4, and equipped with drop pipe, rods, jack, and engine for pumping it several months, for a test. We then moved 200 feet north of this well and drilled No. 5, on W. O. 269. This well proved to be no good and was abandoned. All material salvaged. We then moved South of No. 4 well and drilled No. 6 which was a successful well, which we equipped and pumped for a considerable time.

Meantime, we moved farther South and drilled No. 7 well to a depth of approximately 190 feet, where we lost the tools, including the bit and stem. We were unable to recover the tools, therefore, skidded the drilling machines approximately 10 feet north, and drilled well No. 8 which proved to be a good well. Number 8 was equipped with 8 1/4" casing only. Following is the amount of expense and material in connection with this work that is charged to investment:

Well #4		Well #6	
Labor	\$16.06	Labor.	\$252.51
Material:		Material:	
259' of 4" pipe	97.64	258' of 4" pipe	105.50
1 working-barrel	50.71	Working Barrel	50.71
Use of tractor	15.15	215' 7" 8 1/4" cas-	
Chapman's Exp.	6.40	ing	294.11
		Tractor	72.59
		Chapman's Exp.	10.00
	<hr/> \$85.96		<hr/>
			\$785.42

Well #8	
Labor	\$150.27
Material:	
212' 4" 8 1/2" casing	289.18
Use of tractor	49.49
Drilling Rig	12.93
Chapman's Exp.	10.00
	<hr/>
	\$511.87

As Number 4 well was drilled in 1930, and at that time was pumped for a considerable period of time, showing it to be a good well, we did not pull the 8 1/4" casing, but left it in the well with the expectation of reclaiming the well later, which was done. In addition to the above investment charges to No. 4 well, we should charge it with 208' 6" of 8 1/2" casing, \$282.96, additional drilling by \$190.00, use of tractor for drilling, \$70.00, Misc. Expense, \$10.00.

At the present time the well No. 4 and No. 6 are equipped with Wood Sucker Rods. These rods will be taken out and placed in stock by transfer and be replaced by new steel rods which are on order at this time. The new steel rods will be charged to W. O. #292 and the amount transferred to each well will be shown on that work order. Any other items of material and labor in connection with the investment necessary to equip and put these wells in operation will appear in Work Order 292.

Yours very truly,

JPM/wb

J. P. McCLINTOCK

From the above information it appears conclusive that the costs expensed were correctly handled.

As previously stated in connection with the costs under Work Order No. 101, the cost of prospecting for water in advance of the construction of a compressor station could be capitalized as preliminary engineering or construction expenses, since such prospecting would be for the purpose of locating the station with consideration of the availability of an adequate supply of satisfactory water; however, the capitalization of costs of unproductive prospecting for water years later appears improper, since such unproductive prospecting adds nothing to the usefulness, efficiency, durability or capacity of the property.

Work Order No. 285. Lowering 10-inch Littleton Lateral on Highway east of University Avenue—\$1,737.42. The work performed under this work order was accomplished during the period July to November 1937, at a total recorded cost of \$2,363.69, of which \$442.04 covering the cost of pipe and fittings used to replace pipe retired, was capitalized and \$8.16 for certain water station equipment was transferred to Work Order No. 281. The balance, \$1,913.49, including \$176.07 of Private Payroll charges, which amount is excluded from the present claim for capitalization, was expensed in November 1937.

The usual procedure of crediting the Plant Account with the cost, exclusive of installation cost, of the materials retired, the capitalization of the cost of new materials installed, and the expensing of the costs of removal together with the cost of installing the replacing equipment was adhered to. By this method, the initial installation costs remain in the Plant Accounts.

The fact, however, that the company disposed of the Littleton Lateral during the year 1939 by charging the excess of the investment recorded for this lateral as compared with the theoretical depreciation reserve applicable thereto, to expense by Voucher No. M-33, December 1939, was either overlooked or ignored.

Since the company no longer has a financial interest in this lateral, it is obvious that no consideration of the present claim is warranted.

Work Order No. 290, Drilling Water Well at Travesser Camp—\$714.10. The work performed under this work order consisted of the drilling of three wells, only one of which was kept for use. The total costs accumulated therefor, which were transferred to capital and expense in 1937, amounted to \$1,251.15. The costs of all materials used for the producing well and a 2-inch water line, together with an apportionment of labor and trucking costs, in all, aggregating \$625.58 or one-half of the total expenditures accumulated under this work order, were capitalized. Labor costs of \$88.53, incurred in 1938, were expensed.

The assignment to capital and expenses of the above costs conforms with the notation on the work order completion notice dated December 30, 1937, signed by J. P. McClintock, General Superintendent, which reads,

"Please charge $\frac{1}{2}$ to Investment and $\frac{1}{2}$ to expense of developing better water. (3 wells drilled, only one kept for use.)"

The costs of the unproductive prospecting were treated in a manner similar to like costs incurred under Work Order Nos. 101 and 269, and the explanation given in connection with the costs of those work orders is also appropriate in this connection.

In general, it ordinarily has been the company's procedure to issue formal work orders under which it accumulated the costs of specific jobs of any consequence whether capital or maintenance. Upon completion of the jobs, the job costs have been closed out of Construction Work in Progress, and transferred to other accounts, generally to those specified by the General Superintendent or some other responsible official.

Of the total expenses of \$284,806.36 now claimed as plant, \$97,586.82 or 34% thereof was covered by work orders and was charged to expense by the company on the basis specified by company officials and approved by its accounting officers.

The balance of \$187,219.54 represents the cost of work originally expensed, now claimed as capital, which was not covered by work orders, and is made up of the costs of a

multitude of items, the expensing of which when incurred was also directed by responsible company officials and approved by the chief accounting officer. These items in greater part cover the cost of work performed which appears to have been handled as routine work in connection with operations by regular employees.

From an examination of the company's records it is clear that the management consistently, through responsible officials, to the extent that any item might have originally been considered capital or expense optionally, exercised its discretion as permitted under the systems of accounts used, in assigning such costs to expense. The charging of the costs to expense was not only approved by responsible company officials including the chief accounting officer, but has also been examined and accepted in audits made by members of the Auditing Department of Standard Oil Company of New Jersey, and also accepted by the Bureau of Internal Revenue for income tax accounting.

From the foregoing recital of facts, it is clear that the expensing of the costs now claimed as plant does not represent accounting errors, which may be corrected under the provisions of the Federal Power Commission's Uniform System of Accounts, but rather, that the costs in question were properly recorded as expenses in accordance with sound accounting principles at the time. Accordingly, the Company, in my opinion, is prohibited from realizing its claim for restatement.

Undistributed Construction Costs:

Ford, Bacon & Davis, Inc. Memorandum Report of April 15, 1940 contains the following statement in connection with this item:

"With reference to the item entitled 'Undistributed Construction Costs,' an estimate has been made of a proper percentage to cover supervisory, administrative and engineering overhead costs which were expended on account of the other capital items listed in the attached schedules. Also, this same percentage has been applied and is included in these schedules in an amount based upon all construction projects that have been

carried on by the Company and actually capitalized since the beginning of operations.

"The amounts of these general construction costs applicable to capital expenditures are summarized in Part V of the schedules and are supported by the attached statements showing the analysis of the actual book records. This analysis was made to include consideration of administrative, legal, clerical and engineering costs, including engineering fees paid to Ford, Bacon & Davis, Inc. from 1929 to 1939. The book analysis excluded consideration of interest, taxes and the usual preliminary and pre-organization expense items. As shown on the statements, certain items of expense have been transferred from the general expense to operation and maintenance. Those are amounts which are not strictly items of general expense, but comprise generally 'dumping ground' accounts such as injuries and damages, absent time due to injuries, and like accounts. The management fees paid to Ford, Bacon & Davis, Inc. in the early years of operation have been excluded from consideration in this study as these fees are regarded as applying to operating costs and not as a part of the general overhead to be applied to investment."

Item No. 9 of Statement 2, Exhibit 67, represents what is termed "Adjustment for General Construction Costs Applicable to Net Property Additions and Capital Items Expensed", \$155,244.00.

This is the total amount now sought to be capitalized for:

A. Corporate and Engineering Costs	\$112,967.55
B. Interest During Construction	\$42,276.45

Corporate and Engineering Costs.

Ford, Bacon & Davis, Inc. in the Memorandum Report of April 15, 1940, say:

"In the study the corporate and engineering costs have been given combined consideration. The process generally has been to determine the percentage relationship of corporate and engineering costs to the com-

lined costs of operation and maintenance expense and the gross property additions; that is, general administrative and engineering officers exercise control over the operation and maintenance of the properties while in operation and also supervise and control the construction expenditures made during that period. The problem is to allocate a portion of the corporate and engineering costs to the primary costs of construction work which have been or should have been capitalized. These costs have been determined and are summarized herein on the second page of Part V. Based on the five-year averages as shown on that statement, the incremental cost of corporate and engineering costs to be applied to construction work performed during operation was determined to be 6.74 per cent. . . .

"After consideration of the relationship of the five year averages in the years ended 1933 and 1938, and in other data shown on the second page of Part V, 6.5 per cent was considered a reasonable percentage to apply for corporate and engineering costs to the items of investment that have been capitalized on the books of the Company from 1929 to 1939 and also to the items that have been charged to expense on the books of the Company which should have been capitalized. . . ."

Corporate and Engineering Costs as used in Item No. 9 of Statement 2, Exhibit 67, and in Statement 10, Exhibit 76 (line 11) are \$112,967.55, whereas the amount for these costs as presented in the Ford, Bacon & Davis, Inc. Memorandum Report of April 15, 1940 (page 343) was \$113,687.69.

During the early years of operation, engineering and management services were provided by Ford, Bacon & Davis, Inc. under contracts, the engineering agreement being terminated as of June 2, 1933 and the management agreement terminated as of June 30, 1936.

Engineering services rendered by Ford, Bacon & Davis, Inc. during the period the engineering contract was effective, were billed by it, and the cost of such services, including construction fees assigned to appropriate work orders and/or plant accounts by the company. It has been the

company's customary procedure to charge appropriate work orders and plant accounts with the cost of engineering and supervisory services performed by members of the company's engineering personnel. Such charges were based on time reports. Expenses usually were readily identifiable with specific jobs and were charged thereto.

It has not been customary procedure, however, since 1928 (completion of initial construction) to make any allocation of general administrative expenses, such as salaries and expenses of general officers or of general office clerks. Expenses incurred when identified with specific jobs have been assigned thereto as direct charges, but no general expense allocations have been applied.

The volume of General Administrative Expenses has not fluctuated in accordance with the volume of construction work performed, nor does the trend appear to be influenced by the combined expenditures of operation, maintenance and construction. In fact, the trend of General Administrative Expenses generally has been opposite to that of either Net Property Additions or the combined total of Net Property Additions and Operation and Maintenance Expenses. This is clearly illustrated by the following tabulation:

Year	Net Property Additions, Ford, Bacon & Davis, Inc. Memorandum Report dated April 15, 1940, Page 343, Line 1	Operation and Maintenance Expense, Ford, Bacon & Davis, Inc. Memorandum Report dated April 15, 1940, Page 344, Line 1 (Note A)	General Administrative Expense, Ford, Bacon & Davis, Inc. Report, Exhibit No. 76, Statement 10, Line 10	Ratio, General Administrative Expenses to Net Property Additions and Operation and Maintenance Expenses
1929	\$ 550,994.72	\$ 149,807.32	\$ 41,175.73	5.875%
1930	693,693.13	199,924.45	48,254.81	5.40 %
1931	1,111,945.19	265,481.93	44,197.95	3.209%
1932	140,025.34	251,432.72	36,923.18	9.43 %
1933	5,668.50	241,290.24	40,606.50	16.44 %
1934	62,541.73	265,434.33	36,120.92	11.01 %
1935	125,366.65	265,862.69	30,658.03	7.836%
1936	13,553.28	318,417.79	39,529.78	11.907%
1937	109,689.52	349,559.70	44,689.47	9.73 %
1938	88,884.84	341,975.23	47,943.11 (Note B)	10.93 %
1939	15,925.16	352,469.82	50,926.88 (Note C)	13.82 %
Total	\$2,918,288.06	\$3,001,656.22	\$461,026.36	Avg. 7.787%

Notes: (A) Adjusted to include salaries of General Superintendent and Chief Engineer, excluded in Ford, Bacon & Davis, Inc. report.

(B) Includes \$2,295.00 legal fees in re rate proceeding

(C) Includes \$7,620.00 legal fees in re rate proceeding.

The facts are that General Administrative Expenses have gone on pretty much in the same volume, regardless of the volume of construction work in progress, and there is good logic to support the principle that only such part thereof as is specifically incurred for construction purposes should be capitalized.

The Company's management exercised its discretion as permitted under the system of accounts in not allocating General Administrative Expenses to construction work performed, and its records and accounts have been examined and audited year after year by members of the auditing department of Standard Oil Company of New Jersey.

The absence of any objections or adjustments concerning these General Administrative Expenses as a result of these periodic audits clearly indicates that the Company's policy in this regard was approved.

It also appears that the basis for the present claim to capitalize Corporate and Engineering Costs is the usual engineering rather than an accounting method, in that it is based upon the ratio of construction expenditures to total expenditures, instead of being based upon the time actually spent in connection with construction work. Such time studies cannot now be made with any reasonable degree of accuracy.

The method used in the determination of this claim very definitely results in the addition to construction costs of an arbitrary percentage to cover assumed overhead costs, which is contrary to sound accounting principles in that it does not represent actual plant costs.

Under "Components of Construction Cost" the Federal Power Commission Uniform System of Accounts provides for the inclusion of "Engineering and Supervision" and various other "General Administrative" costs as construction costs, always based on the amount of such costs actually applicable to the construction costs. Under "Overhead Construction Costs" Gas Plant Instruction No. 6(B) reads as follows: "The instructions contained herein shall not be interpreted as permitting the addition to gas plant accounts of arbitrary percentages or amounts to cover assumed overhead costs, but as requiring the assign-

ment to particular jobs and accounts of actual and reasonable overhead costs." (Underscoring added)

Gas Plant Instruction No. 6(C) provides that: "The records supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each gas plant account and the bases of distribution of such costs."

Instructions concerning General Officers' and Clerks' Salaries and Expenses During Construction, as contained in the Uniform Classification of Accounts for Natural Gas Companies prescribed by the Public Service Commission of the Commonwealth of Pennsylvania, effective January 1, 1920, read in part as follows:

"Account No. 259. General Officers and Clerks' Salaries During Construction.

"If the utility is already operating a natural gas system, charge to this account only that proportion of such salaries, that is based upon the time which such officers and clerks actually spend in new construction."

"Account No. 260. General Officers' and Clerks' Expenses During Construction.

"If the utility is already operating a natural gas system, charge to this account only those expenses that are incurred while such officers and clerks are actually engaged on construction work."

The foregoing instructions appear to have been given little, if any, consideration in arriving at the Company's re-accounting with respect to Corporate and Engineering Costs said to be applicable to its plant accounts.

Interest during Construction.

Ford, Bacon & Davis, Inc. Memorandum Report of April 15, 1940 contains the following comment:

"The Company has capitalized no interest on its construction projects since the completion of the original project. On construction projects, such as pipe line extensions, compressor stations, etc., money is tied up in the uncompleted construction for a considerable per-

iod of time before the project can be operated. During this entire period interest should be charged to construction on all money advanced from the first expenditures on account of the project to the time the project is completed and in full operation.

"The Bureau of Valuation of the Interstate Commerce Commission uses an annual interest rate of 6 per cent, and computes interest for one half the estimated construction period plus three months.

"Having in mind the above principles, and the nature of the construction projects carried on, it is considered that a fair interest charge during construction should be 1.5 per cent of the capital expenditures. No interest has been included on the capital items in the attached schedule heretofore charged to expense."

Customary accounting procedure in connection with computation of Interest During Construction is and always has been to ignore such computations for relatively small jobs and for jobs of which the construction period is approximately 30 to 60 days. Computations are based on monthly expenditures by individual jobs and the interest costs resulting from the computations are assigned to the individual jobs.

As is true of other items in this re-accounting, the Company's management exercised its discretion as permitted under the system of accounts used in not assigning interest costs to construction work. This omission continued throughout the years of operation and, although the Company's records and accounts have been subject to audit annually, no objection to this policy has been found in the Company's records.

Some confusion existed in connection with the capitalization of interest shortly after the original construction period in 1928, as is apparent from various entries made in connection therewith. The last paragraph of the following telegram from Mr. J. B. Luse to Mr. F. G. Hill, dated March 6, 1929, attached to the Company's voucher M-258, December, 1928, states the management's policy at that time, which policy has been adhered to consistently ever since as regards its policy of expensing versus capitalizing various items.

"Tentative income tax would indicate thirty six thousand dollars Stop Last fall Messrs. Payne Von Phul Luse agreed to make no depreciation for year assuming earnings would be small now suggest you include five percent depreciation for three months on depreciable property which would approximate one hundred thousand dollars charged to expenses Stop Also suggest we include interest on bonds to September thirtieth be charged to operations leaving only interest on borrowed funds as interest during construction Stop To eliminate bonds interest September thirtieth will mean you reduce this account and charge New York office we in turn will credit field office and charge bond interest expense Stop Think you appreciate three stockholders would prefer this saving than to show large earnings."

As one of the "Components of Construction Cost" Gas Plant Instruction No. 5 (17) of the Federal Power Commission Uniform System of Accounts permits the charging of Interest During Construction on the following basis: "Interest during construction includes the net cost of borrowed funds used for construction purposes and a reasonable rate upon the utility's own funds when so used. Interest during construction shall be charged to the individual job upon which the funds are expended and shall be credited to Account 536, Interest Charged to Construction—Cr. The period for which interest may be capitalized shall be limited to the period of construction. No interest charges shall be included in these accounts upon expenditures for construction projects which have been abandoned."

The method used by Ford, Bacon & Davis, Inc. for computation of Interest During Construction is definitely not in accordance with the instruction.

From the facts recited above, it is obvious that the omission of allocations of General Administrative Expenses and Interest Expenses to Construction Work in Progress was not because of accounting errors, but due to the policy of the Company's management. It is, therefore, not a correction of accounting errors to now re-account for such items by including a portion thereof in plant accounts.

Such re-accounting, in my opinion, is simply a means of inflating the plant accounts.

COLORADO INTERSTATE GAS COMPANY
STATEMENT OF FIXED CAPITAL ITEMS CHARGED TO EXPENSE
BY FUNCTIONAL GROUPS
AS SHOWN BY EXHIBIT NO. 76

Year	Compressing Stations Statement No. 4	Transmission Lines Statement No. 5	Measuring Stations Statement No. 6	Telephone Department Statement No. 7	Other General Expenses Statement No. 11	Total
1928						
1929						
1930	\$ 4,158.90	\$ 12,772.78		\$ 46.33	\$ 39.15	\$ 17,017.16
1931	22,443.99	9,668.53	\$ 38.89	485.99		32,637.40
1932	4,056.58	6,973.44	161.97	75.29		11,267.28
1933	4,804.33	10,709.16	863.27	110.50		16,487.26
1934	1,702.78	13,305.61	21.69			15,030.08
1935	1,308.25	25,752.51	23.43			27,084.19
1936	3,807.62	33,473.62	58.88	40.07		37,380.19
1937	4,138.67	40,647.14	281.27	5.19		45,072.27
1938	3,860.54	37,646.02	619.78	71.47		42,197.81
1939	9,103.68	31,442.61	101.87	54.76		40,702.92
Total	\$59,385.14	\$222,391.42	\$2,171.05	\$819.60	\$39.15	\$284,006.36

COLORADO INTERSTATE GAS COMPANY
SUMMARY OF ITEMS CHARGED TO EXPENSES DURING THE PERIOD JANUARY 1, 1930 TO DECEMBER 31, 1939
WHICH ARE NOW SOUGHT TO BE CAPITALIZED AS ITEM NO. 8, STATEMENT 2 OF EXHIBIT NO. 67

	Year 1930	Year 1931	Year 1932	Year 1933	Year 1934	Year 1935	Year 1936	Year 1937
<u>Flood and Washout Control</u>								
Labor	\$ 132.32	\$ 147.10	\$ 1,925.27	\$ 1,855.81	\$ 1,504.53	\$ 1,216.66	\$ 1,014.60	\$ 1,832.42
Trucking	99.45	77.50	902.00	912.00	672.50	632.25	186.05	470.95
Material		25.13	79.17	60.25	40.30		174.00	269.32
Work Orders								
Total Flood and Washout Control	\$ 191.57	\$ 249.73	\$ 2,906.44	\$ 2,828.06	\$ 2,217.33	\$ 1,848.91	\$ 1,374.65	\$ 2,572.69
<u>Rock Weighting Lines</u>								
Labor	\$ 917.02	\$ 621.20	\$ 721.27	\$ 1,162.88	\$ 1,362.85	\$ 1,964.50	\$ 4,049.17	\$ 3,674.54
Trucking	412.66	279.54	324.57	1,647.50	1,720.25	2,961.60	3,939.72	2,931.21
Material					9.00	11.25		19.00
Work Orders								
Total Rock Weighting Lines	\$ 1,329.68	\$ 900.74	\$ 1,045.84	\$ 2,810.38	\$ 3,092.10	\$ 4,937.35	\$ 7,988.89	\$ 6,624.75
<u>Cattle Guards</u>								
Labor	\$ 410.30	\$ 212.09	\$ 79.67	\$ 31.93		\$ 417.33	\$ 1,168.45	\$ 579.36
Trucking	184.64	128.52	35.85	12.00	4.00	145.89	440.96	132.71
Material		73.50			37.80	30.59	106.01	68.86
Work Orders								
Total Cattle Guards	\$ 594.94	\$ 414.11	\$ 115.52	\$ 43.93	\$ 41.80	\$ 593.81	\$ 1,715.42	\$ 780.93
<u>Bridges</u>								
Labor	\$ 170.85		\$ 55.22	\$ 25.14	\$ 230.65	\$ 324.84	\$ 304.90	\$ 101.74
Trucking	131.74		59.58		98.00	79.19	123.69	
Material	121.91		77.18		30.88		84.28	103.14
Work Orders	5,525.05							
Total Bridges	\$ 5,849.55		\$ 191.98	\$ 25.14	\$ 359.53	\$ 404.03	\$ 512.87	\$ 204.88
<u>Rip Rap and Revetments, River Crossings</u>								
Labor	\$ 254.66	\$ 912.39	\$ 504.22	\$ 2,041.41	\$ 498.67	\$ 768.13	\$ 545.08	\$ 251.58
Trucking	114.60	410.58	226.90	1,087.00	288.00	159.53		194.23
Material								
Work Orders					4,395.26	979.29	5,699.85	1,936.84
Total Rip Rap and Revetments, River Crossings	\$ 369.26	\$ 1,322.97	\$ 731.12	\$ 3,128.41	\$ 5,181.93	\$ 1,906.95	\$ 6,244.93	\$ 2,382.65
<u>Roads and Culverts</u>								
Labor	\$ 1,289.25	\$ 4,637.76	\$ 495.48	\$ 613.92	\$ 942.67	\$ 624.78	\$ 1,237.95	\$ 864.96
Trucking	650.21	2,095.99	233.31	818.00	453.83	25.30	568.17	401.55
Material	155.67	20.00	22.98	18.50	79.13	173.34		
Work Orders								
Total Roads and Culverts	\$ 2,095.13	\$ 6,753.75	\$ 751.77	\$ 1,450.42	\$ 1,475.63	\$ 823.42	\$ 1,806.12	\$ 1,266.51

COLORADO INTERSTATE GAS COMPANY

STATEMENT OF ITEMS CHARGED TO EXPENSES DURING THE PERIOD JANUARY 1, 1930 TO DECEMBER 31, 1939
 WHICH ARE NOW SOUGHT TO BE CAPITALIZED AS ITEM NO. 8, STATEMENT 2 OF EXHIBIT NO. 67

Year 1930	Year 1931	Year 1932	Year 1933	Year 1934	Year 1935	Year 1936	Year 1937	Year 1938	Year 1939	Total 10 Year Period to Dec. 31, 1939
\$ 132.12 99.45	\$ 147.10 77.50 25.13	\$ 1,925.27 902.00 79.17	\$ 1,855.81 912.00 60.23	\$ 1,504.53 672.50 40.30	\$ 1,216.66 632.25	\$ 1,014.60 186.05 174.00	\$ 1,832.42 470.95 269.32	\$ 2,644.60 1,929.39 412.66	\$ 3,879.07 1,605.67 1,966.91	\$ 16,162.18 7,447.76 3,027.74
\$ 191.57	\$ 219.73	\$ 2,905.14	\$ 2,828.03	\$ 2,217.33	\$ 1,845.91	\$ 1,374.65	\$ 2,572.69	\$ 4,998.65	\$ 7,451.65	\$ 25,637.68
\$ 917.02 412.66	\$ 621.20 279.54	\$ 721.27 324.57	\$ 1,162.88 1,647.50	\$ 1,362.85 1,720.25 9.00	\$ 1,964.50 2,961.60 11.25	\$ 4,049.17 3,939.72	\$ 3,674.54 2,931.21 19.00	\$ 4,061.09 2,068.72 7.00	\$ 8,942.89 2,849.54 24.75	\$ 27,477.41 19,135.31 71.00
\$ 1,329.68	\$ 900.74	\$ 1,045.24	\$ 2,810.38	\$ 3,092.10	\$ 4,937.35	\$ 7,988.89	\$ 6,624.75	\$ 6,136.81	\$ 11,817.18	\$ 46,683.72
\$ 410.30 184.64	\$ 212.09 128.92 73.50	\$ 79.67 35.85	\$ 31.93 12.00	\$ 4.00 37.80	\$ 417.33 145.89 30.59	\$ 1,168.45 440.96 106.01	\$ 579.36 132.71 68.86	\$ 488.60 48.45 39.05	\$ 47.14	\$ 3,434.87 1,133.02 355.81
\$ 594.94	\$ 414.11	\$ 115.92	\$ 43.93	\$ 41.80	\$ 593.81	\$ 1,715.42	\$ 780.93	\$ 576.10	\$ 47.14	\$ 4,923.70
\$ 170.85 131.74 121.91 5,525.03		\$ 55.22 59.58 77.18	\$ 25.14	\$ 230.65 98.00 30.88	\$ 324.84 79.19	\$ 304.90 123.69 84.28	\$ 101.74 103.14	\$ 322.36 53.08 15.45	\$ 14.08	\$ 1,519.78 545.28 432.84 5,525.03
\$ 5,949.53		\$ 191.98	\$ 25.14	\$ 399.33	\$ 424.03	\$ 512.87	\$ 204.88	\$ 390.89	\$ 14.08	\$ 8,052.93
\$ 254.66 114.60	\$ 912.39 410.58	\$ 504.22 226.90	\$ 2,041.41 1,087.00	\$ 498.67 288.00	\$ 768.13 159.53	\$ 545.08	\$ 251.58 194.23			\$ 5,776.14 2,480.84
				\$ 4,395.26	\$ 979.29	\$ 5,699.85	\$ 1,936.84	\$ 2,404.56	\$ 728.21	\$ 16,144.01
\$ 369.25	\$ 1,322.97	\$ 731.12	\$ 3,128.41	\$ 5,181.95	\$ 1,906.95	\$ 6,244.93	\$ 2,382.65	\$ 2,404.56	\$ 728.21	\$ 21,400.99
\$ 1,289.25 650.21 195.67	\$ 4,637.76 2,095.99 20.00	\$ 495.48 233.31 22.98	\$ 613.92 818.00 18.90	\$ 962.67 433.83 79.13	\$ 624.78 25.30 173.34	\$ 1,237.95 568.17	\$ 864.96 401.55	\$ 1,719.19 1,920.96 23.95 7,843.84	\$ 2,781.73 1,605.86 62.41	\$ 15,227.69 8,753.18 595.98 7,843.84
\$ 2,095.13	\$ 6,733.75	\$ 731.77	\$ 1,450.42	\$ 1,475.63	\$ 225.12	\$ 1,806.12	\$ 1,266.51	\$ 11,507.94	\$ 4,450.00	\$ 32,380.69

COLORADO INTERSTATE GAS COMPANY
SUMMARY OF ITEMS CHARGED TO EXPENSES DURING THE PERIOD JANUARY 1, 1930 TO DECEMBER 31,
WHICH ARE SOUGHT TO BE CAPITALIZED AS ITEM NO. 8, STATEMENT 2 OF EXHIBIT NO. 67

	Year 1930	Year 1931	Year 1932	Year 1933	Year 1934	Year 1935	Year 1936
<u>Gravel, Rock and Shale for Main Line</u>							
Labor				\$ 249.92			
Trucking			\$ 4.05	180.00	\$ 205.00	\$ 534.66	
Material			9.00	14.98	22.49		\$ 5.11
Total Gravel, Rock and Shale for Main Line			\$ 13.05	\$ 144.90	\$ 227.49	\$ 534.66	\$ 5.11
<u>Cathodic Protection</u>							
Material							
Work Orders						\$11,698.36	\$12,322.69
Total Cathodic Protection						\$11,698.36	\$12,322.69
<u>Profile Maps</u>							
Work Orders							
<u>Lowering Lines</u>							
Work Orders							
<u>Spare Parts for Compressors, etc.</u>							
Materials							\$ 773.80
<u>All Other Miscellaneous</u>							
Labor	\$ 2,803.32	\$ 8,373.92	\$ 2,728.27	\$ 4,195.30	\$ 1,602.13	\$ 3,311.96	\$ 2,939.57
Trucking	1,549.39	4,572.11	1,710.48	1,118.00	249.75	461.66	433.78
Materials	639.77	1,786.32	1,072.81	372.72	582.39	543.08	806.06
Work Orders	1,194.57	8,263.75					456.30
Total All Other Miscellaneous	\$ 6,187.05	\$22,996.10	\$ 5,511.56	\$ 5,686.02	\$ 2,434.27	\$ 4,336.70	\$ 4,635.71
<u>Total by Type of Cost</u>							
Labor	\$ 5,977.52	\$14,904.46	\$ 6,509.40	\$10,176.31	\$ 6,161.50	\$ 8,628.20	\$11,259.72
Trucking	3,102.69	7,564.24	3,496.74	5,774.50	3,671.33	5,020.08	5,692.37
Material	917.35	1,904.95	1,261.14	466.45	801.99	758.26	1,949.26
Work Orders	7,019.60	8,263.75			4,395.26	12,677.65	18,478.84
Total	\$17,017.16	\$32,637.40	\$11,267.28	\$16,417.26	\$15,030.08	\$27,084.19	\$37,380.19

Exhibit No. 196
 Sheet 2 of 2
 Witness - Carl H. Schutte

COLORADO INTERSTATE GAS COMPANY

SUMMARY OF ITEMS CHARGED TO EXPENSES DURING THE PERIOD JANUARY 1, 1930 TO DECEMBER 31, 1939
 WHICH ARE SOUGHT TO BE CAPITALIZED AS ITEM NO. 8, STATEMENT 2 of EXHIBIT NO. 67

Year 1930	Year 1931	Year 1932	Year 1933	Year 1934	Year 1935	Year 1936	Year 1937	Year 1938	Year 1939	Total 10 Year Period to Dec. 31, 1939
		\$ 249.92					\$ 17.56	\$ 1,128.13	\$ 1,086.02	\$ 2,421.63
	\$ 4.05	180.00	\$ 205.00	\$ 534.66			634.81	3,460.14	2,283.23	7,301.89
	9.00	14.98	22.49			\$ 5.11			86.77	138.35
	\$ 13.05	\$ 444.90	\$ 227.49	\$ 534.66		\$ 5.11	\$ 652.37	\$ 4,588.27	\$ 3,456.02	\$ 9,921.87
							\$ 16.42		\$ 2.49	\$ 18.91
					\$ 11,698.36	\$ 12,322.69	21,400.03	\$ 2,524.03	1,971.18	49,916.29
					\$ 11,698.36	\$ 12,322.69	\$ 21,416.45	\$ 2,524.03	\$ 1,973.67	\$ 49,935.20
								\$ 1,806.21	\$ 1,183.32	\$ 2,989.53
								\$ 638.33		\$ 638.33
						\$ 773.80	\$ 136.97		\$ 4,713.07	\$ 5,623.84
\$ 2,803.32	\$ 8,373.92	\$ 2,728.27	\$ 4,195.30	\$ 1,602.13	\$ 3,311.96	\$ 2,939.57	\$ 3,352.56	\$ 4,780.24	\$ 3,153.02	\$ 37,210.29
1,549.39	4,572.11	1,710.48	1,118.00	249.75	461.66	433.78	352.23	719.39	376.40	11,563.19
639.77	1,786.32	1,072.81	372.72	582.39	543.08	806.06	1,102.64	1,039.66	1,339.16	9,284.61
1,194.57	8,263.75					456.30	4,226.64	88.53		14,529.79
\$ 6,487.05	\$ 22,996.10	\$ 5,511.56	\$ 5,686.02	\$ 2,434.27	\$ 4,336.70	\$ 4,635.71	\$ 9,094.07	\$ 6,627.82	\$ 4,868.58	\$ 72,617.88
\$ 5,977.52	\$ 11,904.46	\$ 6,509.40	\$ 10,176.31	\$ 6,161.50	\$ 8,628.20	\$ 11,259.72	\$ 10,674.72	\$ 15,154.21	\$ 19,903.95	\$ 109,349.99
3,102.69	7,564.24	3,496.74	5,774.50	3,671.33	5,020.08	5,652.37	5,117.69	10,200.13	8,720.70	58,360.47
917.35	1,904.95	1,261.14	466.43	801.99	758.26	1,949.26	1,716.35	1,537.77	8,195.56	19,509.08
7,019.60	8,263.75			4,395.26	12,677.65	18,478.84	27,563.51	15,305.50	3,882.71	97,588.82
\$ 17,017.16	\$ 32,637.40	\$ 11,267.28	\$ 16,417.26	\$ 15,030.08	\$ 27,054.19	\$ 37,380.19	\$ 45,072.27	\$ 42,197.61	\$ 40,702.92	\$ 284,808.36

[Testimony of CARL H. SCHUTTE, continued.]

Q. Mr. Schutte, in connection with the Exhibits 195 and 196 which are rebuttal exhibits with respect to the items which Canadian River and Colorado Interstate have changed from expense to capital items in accordance with exhibits by Mr. Lusk, Exhibit 67 I think it is, you prepared these two Exhibits 195 and 196?

A. Yes, sir.

Q. I'd like first to discuss the question of overhead costs and undistributed construction costs which is related to both exhibits. I think the same principle is involved in both.

A. That is correct.

Q. As I recall your testimony on direct examination with respect to your own Exhibit 139 in which you had made an examination and prepared the reclassification for capital accounts for the company, I take it then you stated you were proceeding from an accounting viewpoint and doing that on accounting principles?

A. Yes, sir.

Q. And is that true of the work you have done here; that is, you are applying accounting principles as the items referred to in Mr. Lusk's exhibit?

A. Yes, sir.

Q. And I think at that time you stated you didn't pretend to be a rate case expert.

A. That's right.

Q. Entirely an accounting examination you have made, and that is true of this?

A. That is correct.

Q. And I assume that if these portions of general and administrative expense and the items of interest during construction had actually been charged by these two companies to capital account as a part of the cost of the respective items of property when these items were put into use, you would make no change now?

A. You are discussing which, Mr. Dougherty? 195 or 196?

Q. Well, I assume the same principles would apply. I don't know that it makes much difference, but we can take

195 first, but I am speaking solely of that portion of 196 that relates to undistributed construction costs.

A. Oh.

Q. That subject matter seems to be the same in both exhibits.

A. That is correct. You are speaking of interest during construction and that portion of the management overhead?

Q. Yes, the two items; that is, the portion of general administrative expense which is designated in here in your exhibits, both as corporate and engineering cost, and then that portion, interest during construction.

A. In so far as those two items are concerned, it would depend entirely on what basis they are capitalized on as to whether I would have permitted them to remain or not.

Q. Well, first, you do recognize that those two items are appropriate component parts of capital cost?

A. Properly applied, yes, sir.

Q. And so that if the computation thereof is correct, then such charges should be a part of capital cost?

A. If the computations were correct.

Q. Now take with respect to interest during construction, if the computations as you think were correct had been made by the company at the time and that amount added, then you would make no change in that?

A. That would, as I say, depend on whether they are correctly computed. If they were correctly computed and the amounts appeared to be reasonable, the chances are they would have remained so.

Q. Now, where do you draw the line between discretion of the company in exercising judgment of the accounting officers about methods of computing interest and whether it is to be charged or not as distinguished from what you would call an incorrect computation of interest which would justify you in making a change, although you think that the company should make no change?

A. Well, it would primarily be dependent upon the base. Interest should be, if properly done, based on the individual job and only for the period of construction and then there shouldn't be a delayed or deferred period within that. In other words, if you were to start constructing a piece of property and for some reason or other broke the continuity

of the work, during that period of the break you wouldn't charge interest. That would be one thing. Small jobs normally have not been charged with interest during construction in any case that I know of. Usually the company sets a minimum amount for a job on which they are going to charge interest and another would be the length of time required to complete a construction job.

In other words, you might spend thousands of dollars all within a 15-day period, and in that event you normally wouldn't charge interest during construction.

Q. Well, where is it that you draw the line on one side of which you say the company has discretion to do certain things and on the other side it has not? By that I mean this: Is your line of discretion limited solely as to whether the company shall or shall not charge interest and then if it does charge it, you don't think that it is bound by the discretionary judgment it has exercised and you are not bound by it either?

A. I don't quite get that question, Mr. Dougherty.

Q. Well, you speak in your exhibits about the company having exercised its discretion about charging interest during construction and if it had, as it did, not charged interest during construction, then under your opinion it exercises discretion and now should not be permitted to set that up on its books?

A. That's right.

Q. Now, you recognize the discretion of the company with respect to that fact?

A. Oh, yes.

Q. But I take it you don't recognize that the company has any discretion as to the method of charging interest which is now binding on both the Power Commission and the company?

A. Well, their discretion would be limited to a reasonable and just amount.

Q. In respect to the size of jobs and things of that sort, would you recognize that the company might have had any discretion as to how large a job had to be before interest could be charged?

A. Well, only from the standpoint of what would be normal accounting procedure, is all I had in mind there.

Q. Well, as I get it, in your examination of any interest

during construction that was charged, you feel that you should go back and determine the correctness of the methods and of the amounts in your own judgment and that you aren't bound by any discretion the company might have exercised at the time it made the charge?

A. You say I would go back and correct it?

Q. Yes.

A. No, I don't think so. I think I would point out what they had done and what in my judgment would have been a preferable thing to do. I wouldn't say that they shouldn't do a certain thing.

Q. Well, then, with respect to interest during construction your objection here is, I take it, that because the company did not charge it at the time, it now should not be permitted to set it upon its books?

A. That is the premise, yes, sir.

Q. Now, I understand from what you say in your exhibit, too, that it is your understanding that whether or not interest during construction should be included in capital costs was a matter of discretion, is that correct?

A. You said in Exhibit 2.

Q. In both exhibits again with respect to interest during construction.

A. Will you point out about where that particular item is?

Q. On Page 3 of this statement which you read with respect to 195, you make the statement in that with respect to Canadian River Gas Company that the company's management exercised its discretion as permitted under the system of accounts in consistently omitting the allocation of corporate and engineering costs to construction work performed, and then with respect to interest during construction you again on Page 5 of that same statement say that the company's management exercised its discretion as permitted under the system of accounts in not assigning interest costs and the same thing is true in Exhibit 196 on Page 53. You make that statement with respect to interest during construction.

A. Yes, sir. Now, what was the question?

Q. The question is, is it your interpretation of the Federal Power Commission Code that the matter of adding interest during construction into the capital cost of property

is a matter that is within the discretion of the company; that is, whether it shall or shall not put it in?

A. I think so.

Q. The instruction which you referred to, Plant Instruction 5, which is headed "Components of Construction Costs," reads this way: "The cost of construction properly includible in the gas plant account shall include where applicable the direct and overhead costs as listed and defined hereunder."

Then No. 12 is General Administration Capitalized; No. 17 is Interest During Construction. Now, under your interpretation of the verbs there "shall include," is not that mandatory?

A. I take it is permissible but not compulsory.

Q. Would that be the same conclusion with respect to the other items that are components of construction cost? I am reading from Page 39 of the printed Uniform System of Accounts.

A. There would be quite a number of items coming under Components of Construction Cost and there might be a difference of opinion about whether they should be capitalized or otherwise. In other words, I think the company has the discretion of capitalizing certain items or expensing them or treating them or disposing of them in some other manner than capitalizing them.

Q. There is no language in Instruction 5 that indicates, as I see it, that any of those items—all the way from 1 to 17—may or may not be included, and as I see it, there is no distinction between the reasons you might give for these overheads and other items that are contained there, and if there are any, I wish you would point those out.

A. I think you are correct in that. The components of construction costs, No. 5, says: "The cost of construction properly includable in gas plant account shall include where applicable the direct and overhead cost."

As to overhead costs, however, they base them always on the cost applicable to the particular job. From the standpoint of labor, as I interpret it, it is presumed to mean the supervising officials—I don't mean the construction officials, but I mean the company's administrative officials—devote to the specific things, and in that particular instance I think the company has a discretion of whether it wishes to

capitalize those particular things or not. If it does capitalize them, the basis should be, of course, the time spent on the jobs.

Q. Well, there is a distinction, of course, as to whether you shall or whether you shall not capitalize them and then whether the amount you capitalize is accurately determined, isn't that correct?

A. I think so.

Q. There are two other questions there and I wonder what your interpretation was based upon in saying the company had discretion about making any charge for overhead when the language apparently is mandatory. I believe there is no language there that you know of, is there, that makes any distinction in Instruction 5 as to inclusion of those two items as against, for example, labor, materials and supplies?

A. That is right.

Q. That is one of these interpretations made outside the specific language of the Code?

A. That is correct.

Q. Now, the same sort of language is used in the Pennsylvania Code of 1920, is it not?

A. More or less similar, yes, sir.

Q. So that in order to determine that the failure to include interest during construction in general overhead was not a mistake; you have to arrive at the interpretation, namely, that it is discretionary even though the language in the instruction is mandatory?

A. (No response.)

Q. I don't know whether you thought I was making a statement or asking a question.

A. I thought you were making a statement.

Q. Do you agree with it or don't you agree with it?

A. Will you read that back to me, please?

(The question referred to was read by the reporter, as set forth above.)

The Witness: As to the corporate overheads the Pennsylvania Code on Page 59, speaking of general officers' and clerks' salaries during construction says: "To charge to this account the salaries of executives and general officers and general office clerks that accrue during construction, and if the utility is already operating a natural gas system—

charge to this account only that proportion of such salaries as based upon the time that such officers and clerks actually spend in actual construction."

It was my interpretation in connection with that that the amount of time was not possible of determination. That was one of my reasons for handling that particular item in the manner I did.

In so far as the interest during construction was concerned, the Colorado Interstate Gas Company appeared to be somewhat confused as to what they wanted to do in the beginning; in fact, they initially charged to interest a greater amount than remains there and subsequently credited that particular interest account, and *threw* that interest that was credited back to operations and that appeared to have been based upon a telegram they received from Mr. Luce which as I interpreted it was an expression of the company's policy at that particular time.

Q. Well, you are speaking now of the interest with respect to initial construction in this last statement you made?

A. Well, I think that the telegram would indicate the policy from that time on.

Q. Quite so, and as a matter of fact, the company didn't charge interest on subsequent additions.

A. That is correct.

Q. What I am trying to get divided in this question is between interest that should be charged as a part of the capital expense as distinguished from whether you computed it correctly. As I read these codes, both of them, the language is not permissive and it would seem that the company had not followed the provisions of the Pennsylvania Code, if applicable, in failing to include interest. Do you agree with that interpretation?

A. I agree they could have included interest had they chosen.

Q. So, as I asked a while ago, your interpretation of that code, the Pennsylvania Code as well as the present FPC Code, is that there is a matter of discretion there even though the language is mandatory?

A. Well, I don't entirely agree that the language is mandatory.

Q. It says "shall charge."

A. I have heard Mr. Lusk interpret "shall" wasn't mandatory.

Q. Will you accept his authority on all items?

A. No, I unfortunately wouldn't, but nevertheless, I still can't agree that the charging of interest and overheads to construction is mandatory because in a good many lines of business it isn't done at all.

Q. Well, I am speaking solely with respect to the codes.

A. I appreciate that, but I am speaking from the accounting standpoint for that particular charge.

Q. It would be your interpretation of the FPC Code in the future this company could or could not charge interest during construction as it saw fit?

A. I would think so, yes, sir.

Q. And if it decided not to do so, you would not think it had violated Instruction 5 of the Gas Plant Account?

A. That is correct.

Q. It is that interpretation which you make that forms the basis of your conclusion that it was a discretionary matter? It is your interpretation of that portion of the Code that caused you to say that the charges of these items of overhead was a discretionary matter?

A. I think that is correct.

Q. Beyond that you object to the method which Mr. Lusk used in assigning some part of the general administrative expense as corporate and engineering overhead?

A. Yes, sir.

Q. The manner or method which he used really is one that assumes that the general administrative supervision and work is expended in proportion to the dollars spent either on new construction or on operating expense?

A. That is as I understand it, yes, sir.

Q. So if in any particular year there had been an equal number of dollars spent for property additions and the same number of dollars in the operating and maintenance expense, that theory is the time spent by the general administrative officers and clerks and so forth would be equally spent on construction and on supervising of operations?

A. Based upon the way you made that statement, yes.

Q. It is using the dollar basis as the method of allocation?

A. That is right.

Q. Now, aren't you in error when you say that is assuming an arbitrary percentage?

A. I don't think so.

Q. Isn't an arbitrary percentage one that you would sit down and say, "I will take any number from 1 to 10 and decide 3 per cent might be appropriate and charge it that way"?

A. That, too, would be arbitrary.

Q. But when you use dollars as the measure you still think that is arbitrary?

A. In this instance I do, yes, because even though you might have \$500 capital; \$500 expense, that is no reason to assume you would have used an equal amount of time of the executive officers on each item.

Q. There is considerable opinion that is a proper basis for allocation, isn't there, Mr. Schutte?

A. It has been so stated, I believe, yes, but that doesn't necessarily mean one has to follow it.

Q. Oh, no. I suppose that might be true about your opinion of some of these things?

A. That is right.

Q. What I had in mind was this; that this isn't the first time that the method of allocating general administrative expense on the basis of dollars as between neutral construction and operating expense has been used?

A. No. It is often used and some of it as it is used is questioned.

Q. I think you told me at the beginning that accounting is not an exact science and there is a lot of difference in opinion.

A. That is correct.

Q. You do, of course, use dollars when you come to dividing overheads for initial construction?

A. Not as a general thing, Mr. Dougherty, if I understand you correctly. Your initial construction as I understand it, presumes to be prior to the start of operation.

Q. That is right.

A. In that case I would say it is all construction.

Q. But the method of allocating these overhead expenses to the various parts of the plant, that is, to production and to transportation and to so forth, is done on a dollar basis?

A. Quite often, yes, sir.

Q. And that is the way you did it in Exhibit No. 139?

A. No, I don't think I did. The thing I did—I think I accepted what the company did because it didn't particularly matter whether I used it on a dollar basis or some other basis.

Q. You remember with respect to the transmission lines the overhead had been spread by the company on a mileage basis?

A. That is right.

Q. And you said that wasn't an equitable method and it should be done on a dollar basis?

A. Because there was not any other basis that was more equitable. When computed on a mileage basis it gave the same rate on a 4-inch line as it would on a 16-inch line, so that isn't equitable.

Q. So you didn't leave it as the company accepted it and did charge it and placed it on a dollar basis?

A. In totals I made no change; in the instance of that classification, yes, I made a change.

Q. So at any rate you felt with respect to initial construction in dividing the expense between different parts of the system, the dollars in those different parts was the most equitable manner you could find or devise?

A. Yes, because I didn't have available any other method of doing it. In other words, there wasn't a time study available, which would probably be the best method of doing it.

Q. That is true here, there is no time study record available here.

A. That is right.

Q. So for that reason you indicated the use of dollars as an arbitrary method?

A. In this case it is the difference between operation and capital and in the other it was the difference between one capital account and another.

Q. With respect to the construction of the transmission line it is entirely possible that the time spent on supervising construction of these laterals of smaller size might have been disproportionate to the actual dollars invested?

A. That is possible.

Q. Because you got a certain amount of basic work when you ran a lateral, whether it was an 8-inch or 10-inch line?

A. That is correct.

Q. In the absence of any information about that, it was

your determination that miles would not reflect the most equitable method?

A. I felt that the dollar basis was more equitable than the mileage basis.

Q. Although it might be possible mileage might have a closer relationship to time to some extent than dollars?

A. Oh, it is possible but not probable.

Q. But at any rate, dollars were all right there, but you don't think they are appropriate for this division between new construction and operating expense?

A. No; because as I said before, the one was merely within fixed capital accounts and it didn't matter too much whether it was in one fixed capital account or another, but that doesn't hold true when it is a matter as to allocating certain charges to surplus or to fixed capital.

Q. Is it your interpretation of the plant instruction, 6 that the only way you can arrive at an equitable distribution of these overheads between appropriate charge to operating expense and capital is on a time basis?

A. That is pretty much so, yes, sir.

Q. I assume that the importance of some of the supervision of construction would be different in some particular types of construction than others?

A. I don't think so. My interpretation of that particular instruction is after you are in operation you are going to have to operate regardless, and the construction work added is more or less incidental; that is to say, it fluctuates very much from year to year. In order to get an equitable method of allocating these overhead charges to construction, the time basis is the most equitable manner in doing it.

Q. That disregards whether or not the importance of different construction jobs vary and require a different class of supervision or attention than do others? It assumes everything is on an average basis and purely a matter of time spent?

A. If you had a more important construction job, the probability would be that you would spend more time on it.

Q. And that probably would have some relation to the dollars, that is, the more dollars spent the greater amount of time that would have to be spent on it?

A. That would be entirely likely, yes.

Q. I think Mr. Lusk on his method for Canadian River over the whole period assigned about ten per cent of the

general administrative expense to these overheads for inclusion in capital account. You state on Page 1 of this statement that the basis of Exhibit 195 was to capitalize \$98,052.70 of the total general expense of \$930,077, so that is just a little better than ten per cent?

A. That is right.

Q. I think you had in mind Canadian River during that period of time had expended some three or more millions of dollars in new construction?

A. I have forgotten what the figure was. I don't think I have that figure available. I wasn't so much worried about the total amount he was capitalizing, it was the method he was using and the fact that the company hadn't done it from the beginning. That fixed capital additions net seems to run about \$3,100,000.

Q. Ten per cent of the time of general office clerks and accountants and supervision of manager and various assistants to the extent of ten per cent doesn't seem to be out of line for that much construction, does it?

A. You have to keep in mind at that particular time they had both engineering and management contracts and the management contract wouldn't be presumed to include supervision of construction. The engineering contract would do that, so possibly the figures we are discussing are quite on that basis.

Q. As I understand it, these figures of \$930,077 do not include any of those Ford, Bacon & Davis, Inc. fees except some portion that might have been considered as a salary of Mr. Trelease?

A. Well, then, we would run a greater percentage of the clerks' salaries, wouldn't we?

Q. What I had in mind was this: As I understand it, the \$930,077 is a general administrative expense of Canadian River Gas Company during the time, excluding the amounts paid Ford, Bacon & Davis, Inc.; that is, when Mr. Lusk took his computation he took out the management fees paid Ford, Bacon & Davis, Inc. and took out the engineering fees paid them, so he was computing it purely on a basis of the general expense of the company.

A. I believe that is right.

Q. So as I say, ten per cent of the time doesn't seem like an exorbitant amount of time having in mind the capital additions?

A. Oh, I wouldn't think it would be particularly exorbitant.

Q. As I take it, you are objecting to the fact we have to estimate them and can't compute them exactly on a time schedule basis; that is, not only that but the question of the amount is your principal objection there?

A. The basis of computation and the fact that the company didn't charge them initially.

Q. Well, now, do you have in mind any basis of computation that might be made in the absence of time sheets kept by each of these men, and each of the clerks that are involved?

A. You mean as of this date to make it retroactive?

Q. No, any way. How could we do it in the future? Time study is the only manner in which you can make an assignment of a portion of general administrative expense.

A. I don't know any way of doing it equitably except on a time basis.

Q. Many things are in here in connection with this code of accounts in determining costs in the past that have to be estimated. For example, the code says itself that the original cost when first devoted to public service is to be estimated if not known.

A. That is right.

Q. And that would be true even of cost on the company's books of construction by it if there had been any failure to accurately keep your accounts between different types of property?

A. I think so.

Q. You are supposed to go back and make these estimates, are you not?

A. That is correct.

Q. Why couldn't estimates be made in a case like this?

A. You mean to make them retroactive, or from now on?

Q. I am speaking now of arriving at the amount. There are two problems here, Mr. Schutte. One is your opinion they should not be added here because the company did not add them originally, and the second objection is that there is no acceptable way of computing what part of those general administrative expenses could be added. I am trying to get the thing into its component parts. Assume just for the moment for the purpose of my question that we could add them in retroactively. Why couldn't we make

a reasonable estimate of the appropriate amounts of those overheads to be charged into capital just as the companies are required to make estimates as to original cost of other physical items?

A. Well, I don't know how to answer that question because since my interpretation is they can't do it retroactively, I had never considered the basis for doing it.

Q. Let's take in the future. What method would you say could be used to estimate the appropriate amount of those overheads in the absence of all time records?

A. Well, I still think the time records would be the most equitable way.

Q. And if you didn't keep those, then there is no way of arriving at the amount that could be properly charged?

A. Well, when I say "time records" for the executives that is an estimate in the first place, because I have never seen one that would keep a time record.

Q. So essentially, even currently, you don't anticipate every time the superintendent would go out and look at a well that is being drilled he marks down in his notebook the time he arrived there and the time he left?

A. What would probably happen, as I see it, and from experience, would be he would tell his secretary at the end of the day "I spent about so many hours going out to such and such a place."

Q. So even under the most acceptable procedure of keeping some time records there is bound to be a considerable amount of estimating?

A. From the standpoint of the executive, yes.

Q. That is right. Of course, when that answer is given, then, from the standpoint of the accountant he takes it?

A. He has no choice.

Q. Is there any doubt in your mind that during this period of years in Canadian River's operation, Mr. Ford who is the Superintendent down there, and Mr. Watson, both spent considerable amounts of time looking after the drilling of wells and construction of gathering lines and those other facilities in the field?

A. No, I don't have any doubt whatever but what they spent considerable time in the field, that there would be someone spotting the wells, but as I understand it, a lot of the wells were spotted by members of the engineering division at Amarillo who charged their time to the construction cost.

Q. Well, of course what I am speaking of is the general supervision by the superintendent and assistant superintendent over those matters and observing the wells when they were being drilled by contractors.

A. They undoubtedly spent time on that, yes.

Q. So that there was actually an expenditure of money through payments of salaries and expenses that did not get into the books with respect to the cost of those wells?

A. In so far as salary, I think you are correct; in so far as expenses are concerned, a good many of those could be definitely assigned to specific jobs and I believe were charged there. Of course there was some general expense that wasn't.

Q. The result is there was an actual cost incurred to the company in drilling those wells that is not reflected in their books or in their property account now?

A. I would think so, yes.

Q. Even though it is so, it is your interpretation of the accounting rules under which the company operated and the FPC, that no change should now be made in those accounts to reflect that actual cost was not on the books?

A. You couldn't reflect the actual cost so you would have to reflect an estimated cost.

Q. I agree with you. There is a distinction, I take it, between what the FPC Code defines as book cost and what it defines as cost?

A. I believe so.

Q. I notice definition 6, which is book cost, states: "The amount at which property is recorded in those accounts without deductions for related reserves in other accounts;" definition No. 10, cost, says: "The amount of money actually paid for property or services."

Do you agree with the way I understand that, that the cost would be what was actually expended to bring the property into the property account, and the book cost would be the dollars that the plant account reflects?

A. That is right.

Q. Now, then, Mr. Schutte, if you will go to Exhibit 196, to the various detailed items.

A. All right.

Q. As I have read this over, I think you highly approve of the accounting procedure that was followed by the company with respect to every single one of these items?

A. Not necessarily.

Q. I gathered that you thought the expensing of all of these items was the appropriate thing to do.

A. I felt the company was justified in expensing them.

Q. There might be some of them which you thought would of necessity have to be expensed?

A. That is right.

Q. And some of them which might have been either capitalized or expensed if the management desired?

A. That is right.

Q. Now, with respect to the first item, "Flood and Washout Control," under which category does that come?

A. I think that was proper accounting procedure in that case.

Q. Now, I notice in the FPC Code that one of the items under Instruction 10, Page 45, Structures and Improvements, and then on Page 46 one of the items of cost was drainage and sewage systems. Isn't that, after all, what was done here, to merely construct a drainage system; instead of putting in tile drains they simply cut ditches and spillways and did other things to drain the right of way?

A. Oh, that might have been a part of it, but it wasn't all of it.

Q. Well, all of the things mentioned here in the explanation of Ford, Bacon & Davis referred to taking care of surface water?

A. That is correct, but it likewise took care of terracing, not on the right of way.

Q. Well, is it your understanding that drainage system to be properly included in capital account of the company would have to be constructed on its own right of way?

A. Not altogether. If that were done during the course of initial construction, I would look at it from one angle. If it was done eight or ten years after construction, I would look at it from an entirely different angle.

Q. Of course, none of this work could be done on adjoining land without the consent of the land owner?

A. That's true.

Q. And, therefore, the company had some rights to do the work and maintain the work there?

A. That's right.

Q. So that while it wasn't its pipe line right of way, they undoubtedly had some sort of an easement or some right?

A. They probably had a verbal right.

Q. They weren't trespassers?

A. No.

Q. What is the distinction between putting in a drainage system at the beginning of construction when the line is first built and then putting in a drainage system when later you discover that you need it? What is the difference between those two?

A. Well, I think putting in these ditches and spillways and what-not was a matter of maintenance rather than adding to the plant account.

Q. I know that is your conclusion, but you made the statement that a drainage system put in at the beginning would be a part of the plant, and if you put one in later it wouldn't. Now, I see nothing in the Federal Power Commission Code that makes distinction as to time when it is put in, and I wanted your explanation of that.

A. I don't think there is anything in the Federal Power Commission Code that would say that. The fact of the matter is, as I see, if that were being done in the initial construction you wouldn't be able to ferret it out to save your soul. When it is done afterwards—in that case it would be a part of the initial construction and you would have an undetermined cost in there that you had not been able to specifically up.

However, when you do it subsequently, and you are able to get the information as to what was done, I don't see how you can consider it anything but maintenance.

Q. Of course, it performs the same service whenever done and performs the same service as any system of drainage pipes might perform or any type of structure that would keep water off the right of way as far as its utilization is concerned?

A. It might, yes.

Q. All right, now, the next one, starting with rock weighting. Now, which category does that come in?

A. The same as the first one.

Q. That is, that could only be maintenance?

A. Yes, sir. I wouldn't say "only." I think I would say "preferably," maintenance.

Q. Well, would this be an item that, had the company capitalized, you would not have gone back and removed it from capital and put it into expense?

A. If they had capitalized the costs as they were incurred, I think I would have questioned it in any event.

Q. You would have questioned it?

A. Yes, sir. If that had been done at the time of initial construction it would have been capitalized, of course.

Q. Well, many of these things in connection with the right of way, Mr. Schutte, are done when the necessity arises, isn't that correct?

A. Well, I don't think that would necessarily be true in the case of rock weighting.

Q. What do you understand by rock weighting?

A. Well, in the first place, your line is put in and the back-fill is put in on the pipe without tamping it in any way shape or form. In other words, it wasn't flooded or tamped. It was just put in there loose. Of necessity your erosion over a 10-year period would give you a bit of a ditch there. It couldn't do anything else, so you would naturally put something on there, whether rock or dirt, and from my inspection of the tickets that appeared to be to a great extent what was done here.

Q. Well, a good deal of this was rock put on top of the right of way there where there had not been any settling of the back-fill, wasn't it?

A. You couldn't tell that from the tickets.

Q. I see. And you didn't make any check outside or inquiry?

A. I made inquiries, yes, sir.

Q. And did that disclose that it was mainly put in the holes in the back-fill?

A. I wasn't able to determine, sir.

Q. Do you know that Ford, Bacon & Davis say in their explanation that rock weighting is not to be confused with filling up of gaps and holes in the back-fill?

A. Yes, sir, and I wondered how they were able to get that explanation because I wasn't able to get it.

Q. This helps to hold the line down in case of washouts?

A. Yes, sir.

Q. And prevents the line from floating away or breaking? That is what would happen if you didn't.

A. Yes, sir.

Q. It accomplishes the same thing, does it not, Mr. Schutte, as when the line was originally constructed or now, if you poured concrete on certain portions on it to hold it

down or put heavy clamps on it just like on river crossings you put heavy clamps to hold it down?

A. Well, I am not qualified to make a statement on that.

Q. Now, had that been done, though, in the initial construction you would have thought it should have been capitalized?

A. If it had been in the initial construction, it would have been in the back-filling costs and you would never have been able to determine it.

Q. You consider that doing this is not a betterment to the line in that it makes it more efficient and useful and prevents it from breaking?

A. I don't think it has added anything to the physical value of the line, no, sir.

Q. Now, what about No. 5 cattle guards? Which category is that?

A. Well, that was a questionable item. Those cattle guards might have been put in in the beginning and had that been done they probably would have been made of new material. Very likely you wouldn't have been able to determine the cost. What actually happened here is that this is primarily the cost of labor and trucking, very little for material, and when you capitalized the cost of labor and trucking expenses without having any material costs for this type of item, it is questionable.

Q. Well, there is nothing in the Federal Power Commission Code that says you can't capitalize work done just because the material didn't cost very much, does it?

A. No, sir. That is from an accounting standpoint.

Q. You only capitalize labor if the material has some determinable value or some substantial value?

A. No, I wouldn't say that but I still think it would be questionable to capitalize it.

Q. You mention here that scrap materials have been used. If they had gone over to the Colorado Fuel & Iron and bought some brand new rails and spent considerable money for them, then you would think that it might be capitalized?

A. If the company capitalized it as the work was done, yes.

Q. If this type of thing were done, now—that is, wherever cattle guards have to be installed—would you consider them properly capital items?

A. That would depend on how they went about it. I want to be able to spot each one of them for one thing, which wasn't possible with the information I had. In other words, I would want them to put it up to record such costs on the basis that they can retire them if it were necessary.

Q. Well, what you are complaining about in many respects here is the absence of refinements in accounting methods employed by the company, isn't that true?

A. To a great extent.

Q. And, of course, during the period of years when this was done there was no regulatory body having jurisdiction over the company which had prescribed any code of accounts for them?

A. That is correct.

Q. It was a matter pretty much of running it as they decided themselves?

A. As they saw fit. In other words, it was their discretion.

Q. Yes, so that there wouldn't be possible as many refinements of accounting carried into effect under such a condition as undoubtedly will be when the company conforms to the Federal Power Commission code?

A. That is true, Mr. Dougherty, but nevertheless, from an accounting standpoint if a company were to capitalize certain items it certainly should have adequate supporting information and that is lacking in many instances here.

Q. Well, the supporting information apparently would be adequate maybe to the company but not to an auditor or some regulatory authority?

A. No, I wouldn't think it was even adequate for the company to capitalize them. I think that based on the information that was supplied the accounting department, they had very little choice but to expense the item.

Q. Well, the cattle guards aren't located so that you can go out and find them?

A. You could probably find them, but you couldn't tell when they were put in or how much they cost.

Q. The figures that Ford, Bacon & Davis have assembled here, did you check those against the company records, the job tickets, and so forth?

A. I checked the time tickets and trucking tickets—not all of them, but we made a very thorough test check.

Q. And you couldn't substantiate the figures that Ford, Bacon & Davis have assembled?

A. We could substantiate most of the figures all right, yes, sir.

Q. But you couldn't locate the property that was represented by the figures?

A. Well, I didn't make any attempt to locate the cattle guards other than note that on the time tickets and trucking tickets that the locations weren't mentioned. In other words, what I am trying to say is, I didn't go out and make a physical inspection to see where they were.

Q. But, now, with respect to No. 4, Bridges, which category is that?

A. I think the company's original accounting is correct.

Q. Now, these were bridges, some of them on the company's right of way and some of them public bridges?

A. Primarily public bridges.

Q. There you think that because the bridges weren't solely owned by the company that it would not be appropriate to include any part of that expenditure in capital account?

A. I consider that as a contribution in the aid of construction of the bridges in which the company has no equity whatever except as a tax payer in that specific area.

Q. Did you find out that the purpose of doing that was to avoid constructing bridges by the company itself along its right of way?

A. Yes, I understood that.

Q. And if the same amount of money had been spent in constructing any type of a bridge along its right of way over this same creek, then you would have included it in capital account?

A. The company probably would have capitalized it in that case and I think I would have agreed with them, yes, sir.

Q. The other portions of it to represent bridge costs on the company's right of way, do they not?

A. I don't know just what they represent. I wasn't able to locate those items.

Q. I see. Well, your difficulty there, then, is that you didn't feel that they were substantiated rather than you don't believe that bridges are a proper capital item?

A. Oh, I would believe that the bridges would be capital items based on being able to put them up in retirement units.

Q. Well, as I understand your last statement, you think

that the company's books should be kept so that the retirement units are clearly defined?

A. That's right.

Q. And that again is a refinement of accounting that probably wasn't engaged in by the company during its past years?

A. Well, let me make this statement, Mr. Dougherty, which will probably straighten us out on that? So long as you are expensing certain items you don't go into the refinement. You would if you were going to capitalize them.

Q. And you think that might have had something to do with the inadequacy of the company's books on retirement units with these various things?

A. I am sure it did.

Q. Now, with respect to Item 5, all this work done on river crossings where riprapping was done and revetments put in, in which category do you place that?

A. I think the company handled that correctly.

Q. Would that be work that could be capitalized if all of the records were kept to satisfy your requirements?

A. Some of it might; some not.

Q. Well, now, a good part of this consists of putting in a considerable amount of materials such as rails, concrete, and brush, trees, for the purpose of preventing washouts, isn't that correct?

A. For the purpose of repairing prior erosion and to prevent washouts.

Q. Well, whatever had been done was not previously in capital account; that is, I mean the land that was eroded was not a part of the capital account of the company?

A. That's right.

Q. So that these installations of piling and heavy rails and concrete was the first time that that type of construction had been made at these river crossings?

A. I think that is correct.

Q. Now, there is no question but what if that had been done in the first instance when the line was first built you would have approved its capitalization?

A. I think the biggest part of it possibly would have been, because at that time you wouldn't have had the erosion to worry about that occurred after the installation of the pipe line.

Q. Well, is it your opinion that where a river crossing

is given this treatment of building these revetments and concrete abutments for the purpose of preventing wash-outs, that whether it should be a capital item or not depends upon whether there has been some washing away of the banks previously?

A. Not entirely.

Q. It is a construction that can be found there, of course?

A. It has been my understanding that that type of work has, I mean when it is done after the initial installation of a pipe line, has been generally considered by the gas industry as maintenance cost.

Q. And you believe that in the future any work of that sort should likewise be expensed?

A. It would depend on the individual case. I wouldn't want to say that that would be true in all cases.

Q. Was this a matter that would have been the subject of any discretion at the time by the company? Suppose the company had capitalized particularly these portions where a considerable amount of steel was used? Pile-driving machines were necessary and a lot of concrete and heavy mesh fence. All of that material is there, isn't it?

A. You have in mind particularly Work Order No. 253, \$5,764.21?

Q. That's right.

A. That particular job as I understand it was primarily above the right of way. I think the company handled it in the most approved manner from an accounting standpoint.

Q. Is that because the work was not done immediately where the pipe line was that you make that answer?

A. No, not altogether, but my understanding of that item is that there was considerable erosion at that particular point that had to be repaired, as well as to throw the current to the opposite side of the river.

Q. The erosion that was there before was merely the washing away of dirt, wasn't it?

A. Primarily, yes, sir. I suppose so.

Q. And this was putting back a lot of the dirt?

A. Well, you had to put more or less of a retaining wall there in order to hold the dirt.

Q. And it is physically there now. You can find it?

A. I have seen pictures of it, yes, sir.

Q. And if the property were inventoried, certainly that would be something included in its inventory?

A. Without a doubt.

Q. And it does constitute a betterment in the right of way; that is, it does just more than replace the erosion?

A. Well, you would have a pretty difficult time segregating the cost of repairing prior erosion from the cost of the washouts—preventing washouts.

Q. Well, as a matter of fact, Mr. Schutte, it isn't necessary to repair erosion if it doesn't occur right at your pipe line, isn't that correct?

A. That is not my understanding.

Q. What they do this for is to prevent washouts in the future. The company isn't interested in filling in a washout back up the river with dirt, are they?

A. If the dirt is cut out it is liable to take out a portion of the pipe and you will have to make a new river crossing.

Q. That is to prevent further erosion?

A. Yes.

Q. And also to keep the pipe from washing out?

A. That's right.

Q. We don't try to go back and replace the dirt that is washed out?

A. You do, though.

Q. Only in the event that it is required for this particular new construction, isn't that right?

A. Yes, but the new construction does that very thing.

Q. If you put it in the place where the erosion took place?

A. And that is normally done, yes, sir.

Q. Roads and culverts, Item 6. That amount, any discretion could have been exercised on?

A. From the information that I was able to find on the various tickets, I think the company handled that correctly.

Q. A good many of these jobs had to do with widening and improving company roads, did they not?

A. That is the explanation, yes, sir.

Q. You weren't able to get that same information?

A. In a few instances I think the work tickets did say widening of roads. They usually said "build roads" or "build up roads."

Q. Well, what is your distinction between the expensing and capitalizing of money spent on roads?

A. That would be a pretty fine distinction to draw. Most of your cases would have to stand for themselves.

Q. I mean, suppose a road is widened. Do you consider that a betterment or an addition to the road, or do you consider that an operating expense? —a maintenance expense?

A. I think if I were handling the accounting for a company and it had that particular thing come up, I would want work orders so that I could specifically spot that particular piece of road or keep my cost for it. The chances are that I would capitalize it.

Q. Well, again we are getting to a question not as to whether the actual money expended represented a capital cost but whether the company's records would give you enough information on which you could determine that it represented capital.

A. In this particular case I would say that the records were insufficient and incomplete to permit capitalization.

Q. So you wouldn't know whether it was properly a capital account or an expense item?

A. That is right, and for that reason I would expense it.

Q. Your procedure always is to expense in the absence of full information or clear information which shows that it should be capitalized.

A. It is always based on conservatism.

Q. Well, I take it you don't wish to inflate your operating and maintenance expense account any more than you would want to inflate your capital account, do you?

A. It depends entirely on the company, Mr. Dougherty. I have handled items with one company on one basis and on another basis with another company. The same type of item was capitalized in one case and expensed in another case. I was right both times. It depended upon the company's policy.

Q. I take it, though, the fact of cost; that is, whether the cost, the money expended, constituted a capital item or not would be something that could not be changed by the adequacy or inadequacy by records, isn't that true?

A. If your records weren't adequate to permit proper capitalization of an item, you couldn't capitalize it.

Q. And still it might be that the actual expenditure of money did go into a capital item?

A. That is entirely possible, yes, sir.

Q. So that on the basis of the method you are discuss-

sing, everything would be expensed unless the records clearly indicated that they properly should be capitalized?

A. Unless it were clearly indicated that it were properly a capital item.

Q. And you wouldn't go outside those records and try to build up that body of information otherwise?

A. Not at this time, no, sir.

Q. What about No. 7, on Page 23 of your exhibit?

A. I don't think there is any doubt but what the company handled that properly.

Q. This is the same rock that was used for rock weighting or the cost of it, I should say?

A. Well, it is similar cost.

Q. I see. You made no other inquiry to attempt to identify this work which you say the tickets—trucking and labor tickets, did not?

A. It was impossible to identify those.

Q. You didn't go back of the information on the tickets.

A. I made verbal inquiries, yes, sir. I did that in all cases.

Q. But you were unable to get any adequate information that would satisfy you as to where it went and what happened?

A. That's right.

Q. Now, about No. 8, Cathodic Protection. Which character of item is that?

A. That is a questionable item.

Q. By that you mean that there is something that the company might properly have capitalized if it desired to do so?

A. I thought so, but I was agreeable to letting it stand in the way the company had recorded it because of the information I was able to obtain.

Q. That is as you discussed it in here, that your understanding is it was of a different type of cathodic protection than that later installed?

A. No, I didn't have that in mind so much as I did the interchange of telegrams between Mr. Hendee and Mr. Lerch.

Q. Well, that is, on that portion of it, that is represented by the Arkansas Valley laterals?

A. I discussed the matter of cathodic protection with

both engineers and accountants and they weren't all of the same mind. Some of them termed it preventive maintenance in that it extended the useful life of the property. From that angle they thought it was definitely—that is, this particular type of cathodic protection was definitely a maintenance item which need not be charged into operations in one year but which could be deferred over a several-year period. Others thought it might be a capital item.

Q. Well, that sounds like it is one of those things on which discretion might have been exercised?

A. That was my idea, yes, sir.

Q. But since the company did charge it to expense, then you feel it should be left there?

A. Yes, sir.

Q. How about Item 9, Profile Maps?

A. Normally, profile maps are necessary in advance of construction. In that case they are termed preliminary engineering expense and very seldom questioned. In fact, I don't know that I have ever heard of them being questioned, but when the profile maps are made some years after the line has been in operation, it seems to me that they are entirely for the purpose of operating and should therefore be charged to operating expenses.

Q. Of course, the maps are a part of the physical property of the company and are there along with all other original maps that were drawn?

A. That is right.

Q. How about No. 10, in what category is that?

A. I think that is properly expensed.

Q. The portion of lowering lines which is that part of the work that would consist of the deepening of the ditch and additional work because of that, would you say that should be expensed or could that be capitalized?

A. I think that should be expensed if it didn't add to the line.

Q. I see. Well, the purpose of that would be to make the line freer from possible washouts, wouldn't it?

A. That might be possible. There would be various other reasons such as changing roads and things of that sort, but the changing in the location of lines, whether lowering or moving them to another location, unless you have increased your capital investment has always been considered as maintenance expense.

Q. That is, you considered the lowering of the line the same as moving it laterally?

A. Yes, sir. In that particular instance one of the items covers a piece of line that the company has since disposed of. That doesn't seem to be in this particular section. There is another one elsewhere—

Q. Well, any new materials involved, any pipe taken out or new pipe put in, that is properly capitalized, isn't it?

A. And it has been, yes, sir.

Q. But you say the labor would not be?

A. That's right.

Q. Now, Item 11, which is referred to as spare parts which the company has accounted for through expense each year, should not those properly be a part of materials and supplies?

A. Yes, sir, until they were used.

Q. In capitalizing them this way, isn't that in substance what is being done with them?

A. No, sir.

Q. In determining the amount of materials and supplies, whichever one of the Power Commission accountants did that, did not include these items in such materials and supplies?

A. That is correct.

Q. And if they were put in there, would you consider that appropriate accounting treatment?

A. I think I said as much here: "The cost of such repair or spare parts as are included in this item may be properly assigned to the supply inventory account if held for use, or to the appropriate maintenance account if immediately used. If included in the supply inventory, such costs are automatically given consideration in connection with the company's working capital requirements."

Q. Now, you have got a lot of miscellaneous items there under 12. Now, I take it that from your comments you think all of those items were properly accounted for by the Company?

A. Preferably accounted for, I should say, yes, sir.

Q. Now, you refer there to Work Order 8, about some expense in connection with Colorado Springs lateral. Now, isn't that properly covered by gas plant instruction 3-C which includes preliminary studies and general expense and engineering and so forth?

A. I didn't so interpret it, Mr. Dougherty, from the character of the expense involved there.

Q. Well, this lateral actually was built later.

A. Yes, sir, but this particular expense from the information that I was able to secure, appeared to be more for the negotiation of the franchise at Colorado Springs than for the lateral itself. It covered primarily hotel bill and entertainment expense which wouldn't have been necessary for preliminary studies of the line.

Q. That is, it would properly go under the account that has to do with organization expense or miscellaneous—well, organization expense?

A. No, I don't think it would belong under expense, and since they didn't get the franchise, I wouldn't think it would belong to 302. However, had they secured a franchise, then I would think 302 would have been correct.

Q. The results, however, whatever they were, the particular property that they did relate to was the service at Colorado Springs which was later taken on?

A. Yes, but not on the same basis.

The Trial Examiner: We will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. Dougherty:

Q. Mr. Schutte, you have a number of items having to do with drilling water wells at various stations.

A. Yes.

Q. Work Order 101 on Page 37 and Work Order 269 on Page 39 and Work Order 290, that is on Page 43 of your exhibit. Those all are about the same type of work, are they not?

A. Well, the two of them, No. 101 and 269, are both for prospecting at the Canyon compressing station site or adjacent thereto, where 290 is at Travesser Camp. They are all for prospecting, however.

Q. Now, the reason this work was done at Canyon station was because the existing water supply was either proving inadequate or inefficient?

A. Unsatisfactory, I believe is the term they gave it.

Q. Unsatisfactory?

A. Yes.

Q. So in effect they really were prospecting to determine whether the station should still be there or whether it might have to be located some place else?

A. It had not been put up on that basis. That might be the case.

Q. That is, if they had not found finally one of these wells that produced satisfactory water, it is reasonable to assume, isn't it, that they might have had to prospect some place else for another location?

A. Unless they could have made the water satisfactory.

Q. The items which you think should not be capitalized have to do with drilling wells that did not produce water?

A. And were abandoned.

Q. And were abandoned?

A. Yes.

Q. Of course, all of that expense was caused solely by the search for water?

A. I would think so, yes, sir.

Q. And it just depended on how successful they were whether they had to drill three or four or one well?

A. That is right.

Q. Does it represent the total expenditure necessary to get an adequate water supply?

A. Yes, I would think so.

Q. And if all of the wells had had water you would consider them properly capital items?

A. If they had not been abandoned, yes, sir.

Q. It is the abandonment, is that the basis of the expensing?

A. In this instance, primarily, yes, sir.

Q. I think you have stated here, had this all been done in the first instance, that is, before the company got into operation, then it properly should be included as capital?

A. That is my interpretation, yes, sir.

Q. That authorized by the Code?

A. I don't know that that is necessarily authorized by the Code, but it would be on the basis of preliminary engineering studies.

Q. Is your approach to this whole general subject about

the same as it would be if the company had filed its reclassification of its accounts as required by the Federal Power Commission Code and had submitted these various entries as proposed entries to be made and you were called in by the Commission to express your opinion on them?

A. Yes, I think so.

Q. That is, your approach to it is the same as if it were a reclassification proceeding before the Commission?

A. Well, of course, that could take several angles that haven't been given consideration here. This is based on exactly what the company has done. Now, if in the course of an examination for reclassification I were given instructions somewhat similar to those I have had in this instance, I think my approach would be pretty much the same, yes, sir.

Q. Well, I was speaking solely of your comments on entries proposed by the company rather than on any independent investigation of what other items might be reclassified or not.

A. That's right.

Q. So that if the items had been submitted, as I say, as proposed entries by the company, which they intended to capitalize, your study of them and your criticism of them would be the same as you have made here?

A. I think so, yes, sir, pretty generally.

Q. And that again is based on the principle that you follow, that having exercised discretion, then the company should not be permitted to restate its accounts as proposed?

A. That is right.

Mr. Dougherty: That is all.

Mr. Lange: I just have a few questions.

Redirect Examination.

By Mr. Lange:

Q. Mr. Schutte, with reference to your approach to this subject, particularly the items in your Exhibit 196, it specifically refers to interest during construction. As I understand it, you are not at all concerned and were not at all concerned in the preparation of that exhibit and study as to the reasonableness or unreasonableness of the amounts of dollars?

A. That is correct.

Q. In interest during construction it was the method of treatment of the items itself?

A. That's right.

Q. And I will ask you whether your approach was the same in connection with all other construction costs. You weren't interested in the reasonableness of the amounts themselves, or the percentage used by the company?

A. No, it was the principle involved rather than the amounts.

Q. Of course you aren't able to have the information essential to determine whether it was reasonable or unreasonable in amount?

A. That is correct.

Q. Nor were you able to determine in connection with the amount of time that any of the company officials or employees did or did not devote to the property that is being constructed?

A. That's right.

Q. You were asked by Mr. Dougherty whether or not it wouldn't have been reasonable to assume that Mr. Watson or Mr. Ford or both devoted some portion or a considerable portion of their time to construction work. You, of course, don't know whether they did or did not.

A. That's right.

Q. And you would have no way of ascertaining whether they did or did not devote any portion of their time or any of it at all to that?

A. That is correct.

Q. And that same approach is applicable to all overhead construction costs?

A. Yes, sir.

Mr. Lange: I believe that is all.

Mr. Dougherty: I believe that is all.

(Vol. LXXXVII, pp. 13,125-13,180.)

SMITH'S Direct and Cross Examination.

By Mr. Lange:

Q. Will you state your name, please?

A. My name is Kenneth L. Smith.

Q. You are presently employed by the Federal Power Commission?

A. Yes, sir.

Q. And you are residing in the City of Denver, Colorado?

A. Yes, sir.

Q. Do you have a statement giving your educational qualifications in the work you are now engaged?

A. Yes, sir.

Q. Would you read that into the record?

A. This is a statement of both education and experience.

Q. These are just your qualifications that you are reading into the record at this time?

A. Yes, sir.

"My name is Kenneth L. Smith. I am employed by the Federal Power Commission in the capacity of Principal Examiner of Accounts.

"I am a member of the Illinois Society of Certified Public Accountants, the American Accounting Association, and Beta Alpha Psi, professional accounting fraternity.

"In June, 1927, I was graduated from the College of Commerce and Business Administration of the University of Illinois with the degree of Bachelor of Science, having specialized while at that school in accounting.

"I am a Certified Public Accountant of the State of Illinois, having passed the required examination in 1930, and in 1937, as the result of graduate study and upon the completion of a thesis, I had the degree of Master of Science conferred upon me by the University of Illinois.

"The major subject of my graduate study was accounting. This graduate work embraced courses having to do with the nature of basic accounting concepts, such as capital, income, revenue, expenses, losses, depreciation, profits and surplus; with the purposes, form and content of accounting reports; with the theory and problems of cost accounting; and with the problems of managing and regulating public utilities.

"Immediately after being graduated from school in 1927 I was employed by F. W. Lafrentz & Company, Certified

Public Accountants, to work in their Chicago office and I continued in their employ for seven years, until August 1934. During the latter years of that employment I served as a senior accountant, in a supervisory capacity.

"While with F. W. Lafrentz & Company I participated in a variety of accounting engagements which included not only the usual balance sheet and detailed audits but a number of special investigations as well.

"Some of these special engagements involved the preparation of income tax returns for public utility company groups and related depreciation studies, examinations made preparatory to financing operations, and examinations made preliminary to the acquisition by public utility companies, of operating properties including natural gas properties.

"My experience with F. W. Lafrentz & Company familiarized me with the practical operations of public utility operating, management, construction, and holding companies for more than half my time with that firm was spent on public utility work, both gas and electric.

"In September 1934 I accepted a position as top senior accountant in the Chicago office of Deloitte, Plender, Griffiths & Company, an international firm of public accountants. I retained that position until June 1936. During this employment I supervised the annual field audits and preparation of accounting reports thereon for several utility holding and operating companies. This included preparation of consolidated financial statements for groups having both American and foreign subsidiaries. I also supervised the preparation of the accounting sections of registration statements and annual reports filed by utility clients with the Securities and Exchange Commission under the Securities Act and Securities Exchange Act, respectively.

"In addition to the utility work outlined in the foregoing, which occupied by far most of my time during that period of employment, I supervised the annual audits and the preparation of the annual reports of packing houses, finance companies, coal mining companies, and other industries.

"Effective December 1, 1936 I accepted an appointment

as Principal Examiner of Accounts in the Division of Finance of the Federal Power Commission. I retained that position until September 1938. My principal duties during that period consisted of making studies and drafting reports relating to the accounting and financial aspects of applications filed with the Commission by public utilities and licensees requesting authority for sale, merger, consolidation or other disposition of facilities or issuance of securities. I was also required to attend hearings relating to such applications.

"In addition to the foregoing, I assisted the Chief of the Division of Finance in preparing reports upon statistical studies of the financial characteristics of the electric utility industry in the United States and in preparing reports and charts pertaining to the intercorporate relationships of electric utility and holding companies, and supervised the office audit of annual reports filed by electric utilities.

"From September 1937 to June 1938 I also instructed evening classes in principles of accounting at the Strayer College of Accountancy, Washington, D. C.

"In September 1938 I accepted an appointment as Assistant Professor of Accountancy in the College of Commerce and Business Administration of the University of Illinois. During the ensuing school year I instructed classes in accounting principles and auditing procedure, respectively, carried on research in French accounting literature, and completed an article entitled 'Capital Gains and Losses in Accounting,' which was published in the June 1939 issue of the 'Accounting Review.'

"In June 1939 I resigned from the faculty of the University of Illinois to accept my present position as Principal Examiner of Accounts in the Commission's Division of Accounts. I was immediately assigned to duty in connection with the investigation of Canadian River Gas Company, et al. (Docket G-124)."

(Vol. XXXIII, pp. 4600-4605.)

Q. You are the same Kenneth L. Smith that has heretofore testified in this proceedings?

A. Yes, sir.

Q. You have heretofore testified on accounting matters both with reference to exhibits as well as testimony that has been presented in these proceedings?

A. Yes, sir.

Q. I will ask you whether in connection with accounting matters you have prepared a written statement giving analysis of the original cost principle from the standpoint of accounting theory?

A. Yes, sir, I have.

Q. Do you have that before you at this time?

A. Yes, sir.

The Trial Examiner: Are you going to have this marked as an exhibit, Mr. Lange:

Mr. Lange: No, he was going to read that into the record, and I will ask him to begin the reading of it at this time.

Mr. Spencer: Mr. Examiner, before he starts to read, I assume it is understood with counsel that I may let him read without interrupting and at the conclusion of his reading I may move to strike all or any part of it.

Mr. Lange: That is perfectly agreeable.

Mr. Spencer: All right. That's all.

The Trial Examiner: Very well, that will be the understanding, Mr. Spencer, and that is the understanding that the Examiner has when they are permitted to go ahead and read these statements without interruption.

The Witness: The Commission's Division of Accounts, based upon its examination of the accounts and records of Canadian River Gas Company, Colorado Interstate Gas Company and Colorado-Wyoming Gas Company, respectively, has among other matters, prepared studies showing the original cost of the plant of each of such companies. The original cost studies so prepared conform generally to the principles set forth in the Commission's Uniform System of Accounts for natural gas companies.

The approach followed in obtaining original cost has been essentially an accounting approach. That is, the dol-

lars accounted for as plant on the respondents' books have been reclassified or earmarked, as appropriate, or eliminated if the facts developed, as related to sound accounting, so warranted.

"An original cost study which disregards either wholly or in part the accounting results shown on the company's books is unacceptable. This is a fundamental maxim in the practical application of the original cost principle. In other words, original cost in order to be valid must be obtained by an accounting method. It must conform to certain co-ordinated and consistent principles which are inherent in accounting theory and methodology.

"During the past five or six years a significant change has taken place in public utility accounting in the United States through adoption of uniform systems of accounts which embody the original cost principles or doctrine with respect to plant assets. With reference to the electric and gas utilities, such uniform systems of accounts have been sponsored by both the Federal Power Commission and the National Association of Railroad and Utilities Commissioners. Many state commissions have adopted systems of accounts embodying the basic principle of original cost. In fact, it is now estimated that 90 per cent of the electric utility industry, measured either by assets or revenues, is using some system of accounts which embodies the original cost principle.

"The Uniform System of Accounts for natural gas companies prescribed by the Federal Power Commission became effective on January 1, 1940 and reports indicate that the Federal Power Commission system and the system with which it is nearly identical, namely, the one adopted by the National Association of Railroad and Utilities Commissioners, are also rapidly attaining wide acceptance on substantially a national basis.

"It is also significant that the system of accounts prescribed in 1935 for telephone companies by the Federal Communications Commission recognizes the original cost principle. In 1935 the Interstate Commerce Commission prescribed a system of accounts for pipe line companies which likewise recognizes the same principle although not

called by that name. In addition, the system of accounts for water companies recommended by the National Association of Railroad and Utilities Commissioners also requires that the plant accounts be reclassified and kept in accordance with the original cost basis.

"The original cost principle is highly acceptable from the standpoint of accounting theory. The doctrine in itself or its accounting application does not add to or subtract anything from the plant accounts of a utility company; it merely *analyses*, classifies, and segregates amounts which are significant to regulatory bodies, investors, and even to management. It permits achievement of one of the fundamental objectives of good financial reporting through adequate and truthful disclosure of highly pertinent data.

"To understand the historical reasons for the adoption of the original cost principle it is necessary to understand the condition of utility accounts in general at the time the systems of accounts were under compilation some six or seven years ago. Many public utility accounts were in very bad shape. The tremendous amount of inflation disclosed by the Federal Trade Commission in its investigation of public utility companies is a matter of public record and common information to the industry. Regulatory bodies recognized as a result of that study that some sort of action was necessary or at least desirable to correct the abuses which had been disclosed. I know personally of many cases in which the property accounts were almost meaningless because of large unidentified amounts resting in lump sum accounts. I know of cases in which the investment in the various utility departments, such as electric, gas, street railway, and so forth, was not known by the management and of course, under such circumstances, the cost of a particular generating station or transmission line was hopelessly concealed or buried. It was general knowledge among public utility accountants that retirements of property had been made by the utility companies without proper record, and that in many cases retirements were recorded at estimated original cost of construction although the amount carried on the books for that property might have been much greater.

"One of the principal abuses in earlier utility accounting was in connection with acquisition of going concerns, that is, mergers, consolidations, and other property acquisitions. It was probably for this reason that the systems of accounts which have been recently adopted apply the original cost doctrine technically to the acquisition of operating units or systems. The original cost system furnishes a remedy that goes to the source of the evil because it provides that the cost to the person first devoting operating units or utility systems to public service shall be recorded in the detailed plant accounts, and that any difference between such costs and the costs to the present owner shall be earmarked in specific accounts. In other words, the new systems, so far as the plant accounts are concerned, require first and fundamentally the reclassification or breaking up of the amounts appearing on the books.

"The original cost systems of accounts yield other benefits. Original cost is an element to be considered in the computation of the rate base, and the only manner in which original cost can properly be ascertained is by an accounting process. The condition of the records of many utility companies a few years ago did not permit this ascertainment within a reasonable time with a reasonable amount of effort and cost.

"Also of importance is that after the necessary information is available, through application of the original cost principle, proper regulatory steps can be taken to obtain sounder financial structures for a great many public utility companies. As soon as investors are assured of the absence, or at least the disclosure, of inflation in public utility capital accounts, money should be attracted to the industry more easily and at a lower rate. The original cost scheme is the only scheme in my opinion which can accomplish these objectives.

"The systems of accounts prescribed by the Federal Power Commission, as well as those promulgated by the National Association of Railroad and Utilities Commissioners, definitely prohibit the recomputation of the cost of the company's construction as of the effective date of the system of accounts, when such construction was accounted for

in accordance with the system of accounts in effect at the time or in accordance with the discretion of management as exercised under the broad principles of accounting.

"Gas Plant Instruction 2-B of the Federal Power Commission system of accounts for gas utilities contains the following definite language:

" * * * It is likewise not intended that adjustments shall be made to record in gas plant accounts amounts previously charged to operating expenses in accordance with the uniform system of accounts in effect at the time or in accordance with the discretion of management as exercised under such uniform system of accounts."

"A similar provision is in the system of accounts for electric utilities and licensees."

"It has been the consistent interpretation of the Federal Power Commission's Bureau of Accounts, Finance and Rates, of which Mr. Chas. W. Smith is the head, that Instruction 2-B prohibits any restatement of plant costs if such costs were in accordance with generally accepted principles of accounting at the time when recorded."

"The National Association of Railroad and Utilities Commissioners has also been emphatic in its interpretation of Instruction 2-B. The following language is used at Pages 9 and 10 with reference thereto in a publication entitled 'Statement Relating to the Original Cost and Reclassification of Utility Plant Pursuant to the Provisions of Uniform Systems of Accounts for Electric, Gas and Water Utilities,' revision of September 20, 1940, prepared by the Committee on Statistics and Accounts of the National Association:

"Restatement of costs based upon revised allocations of joint expenses (expenses applicable to construction and operations) cannot be permitted. Two self-serving, self-impeachments must be guarded against; 'our records are in such bad shape that we cannot determine the cost of our property from our books and records' and 'we have not in the past properly distinguished between construction and operations and construction and maintenance.'"

" * * * The intent of the reclassification is to reclassify the dollars in the plant account as of the effective date of the system of accounts to the new accounts. This process is a reclassification and not a reaccounting. The utilities are required under the system of accounts to reclassify the dollars in their plant accounts as of the effective date thereof and not to compute a hypothetical original cost of property constructed by them."

"The uniform system of accounts promulgated by the Public Service Commission of New York for gas companies is even more rigid than the provisions referred to above of the Federal Power Commission and National Association systems. Gas plant instruction 2-F of the New York system provides as follows:

"Nothing herein stated shall be taken as permitting the recording as part of the original cost of gas plant of amounts charged in previous years to operating expenses, operating taxes, or other income or surplus accounts."

"From the foregoing language it is clear that the New York system specifically prohibits the restatement in plant accounts of any item heretofore charged to any part of the income account or to surplus, even if the charge was purely an accounting error.

"The position taken by the Federal Power Commission's accounting division and by the National Association of Railroad and Utilities Commissioners, indicated above, has positive sanction in accounting theory. They seek to prevent what would be the equivalent of writing up plant accounts and certainly the latter is one of the worst abuses in utility accounting.

"To understand completely why the interpretations of the Federal Power Commission's accounting division and the National Association represent sound accounting practice, it is necessary to understand some of the fundamentals pertaining to the basic nature of accounting.

"Accountancy as applied to a business entity, in brief, deals with proprietorship, or the assets represented by

proprietorship, and their changing amounts as measured in units of money. Of primary importance in the accounting process is the assigning or allocating of costs to or matching of costs with, revenues. This phase of accounting has been described as 'crucial' from the standpoint of periodic income measurement and admittedly it comprehends most of the difficult problems of accounting analysis. Accounting employs innumerable details in its processes and furnishes vital information to business management and proprietors but its central purpose is cost accounting, that is, determination of the cost of doing business—the cost of obtaining revenues and the resulting profit or loss, or income.

"Contrary to the belief of the uninformed layman, accountancy is not an exact science. Every qualified accountant appreciates how utterly true this statement is. Accounting principles and practices are based to a considerable extent on logic, but its philosophy is also influenced tremendously by convention and tradition.

"Although accountancy is far from being an exact science, it is nevertheless a well-developed science. Its mechanisms are unavoidably very complex for a large business organization. The mechanics of accounting as practiced are far from being uniform.

"As to its broad fundamental principles, however, the science of accounting is about the same everywhere, but even those broad fundamental principles are not inflexible in their detailed application. In fact, much choice and discretion are permitted management and accountants within the scope of those broad principles. To illustrate this point, it is fundamental in accounting that inventories of merchandise, supplies, and so forth, when existent, should be included in the balance sheet and proper effect given in the income statement. The method of pricing the inventories, however, is subject to wide variation and to much discretion or choice. Department stores, for example, use a statistical method in pricing their inventories; some businesses use a first-in, first-out method, whereas others use the last-in, first-out scheme. Some businesses state inventories on the basis of cost or market, whichever is lower.

while others use cost, and in some cases where inventory costs cannot be obtained, market value^{less} estimated selling expense is used. The Federal income tax regulations for many years have permitted wide discretion in pricing inventories, but it is significant that no change in method of pricing may be made without obtaining special permission from the Commissioner of Internal Revenue.

"In the extractive industries it has long been accepted accounting practice to charge substantial replacements of plant to expense just the same as in many jurisdictions, and in England it is accepted law for the extractive industries to pay dividends out of capital. In fact, the extractive industries, because of the nature of their undertakings, quite generally charge items to expense which would ordinarily be charged to capital or plant accounts in other business enterprises. There is good reason for this, of course, from the standpoint of business policy, and the practice if followed consistently yields satisfactory and sound accounting results which are generally accepted.

"One of the characteristics of public utilities is their relatively large investment in plant assets. A tremendous amount of accounting, revolves around such assets. Considerable discretion has been allowed in the past and is still allowed the management of a particular utility company in accounting for its investment although obviously the natural tendency of regulation is to restrict the area of managerial choice.

"While considerable variation has existed in individual policies of accounting for plant items, accountants have been equally willing to certify to financial statements of companies which have followed different methods or policies. They have been right in doing so, because the general or accepted principles of accounting do not lay down one and only one inflexible rule. Any practice may be right if it is within the limitations of the broad scope of an accounting principle and is followed consistently.

"The reason for this condition is that accounting to repeat and to re-emphasize, is not an exact science. With this, any qualified accountant will agree.

"As to many items which are charged to the accounts,

the question is not what treatment is absolutely right or wrong, but rather which is the preferable practice; and the treatment adopted for individual items is not nearly so important as consistency in the treatment of all such and similar items.

"This necessitates a few words relative to the importance of consistency in accounting. When a public accountant certifies to financial statements, he invariably makes a positive affirmative assertion that the statements have been prepared in conformity with generally accepted accounting principles applied on a basis consistently followed. Any departure from consistency requires a qualification in the auditor's certificate. This reference to consistency is contained in the form of certificate approved by the American Institute of Accountants. It is in widespread use, as reference to the annual reports of almost any corporation having listed securities will disclose.

"Consistency is vital to the integrity of financial statements. It is absolutely essential that the accounts which underlie the balance sheet and income statements be kept at all times in accordance with consistently applied principles and practices, for otherwise distortion, manipulation and untruthfulness, consciously or unconsciously, would result.

"One of the more common misconceptions of accounting among the uninformed is that the two principal financial statements, the balance sheet and income statement, are not related. This misunderstanding where present is indeed unfortunate. These two statements are very closely related and this relationship is always present, consciously or unconsciously, in the minds of accountants. In fact, this is fundamental in the science of accounting.

"It is one of the first principles taught to students of accounting and represents something they are never allowed to forget either during instruction or in practice. A particular charge may be recorded in an account of either statement but not simultaneously, that is, duplicated, in the accounts of both.

"Charges are frequently made to balance sheet accounts and then subsequently prorated or allocated to income ac-

counts of different periods. This process is going on all the time as one of the essential routines of accounting. It is important that accountants, analysts, and others who use accounts do not forget the relationship of the two statements by focusing attention exclusively on one or the other even momentarily. Such a misconception may result in distortion and serious error.

"The relationship of the vital principle of consistency in accounting to any proposed reaccounting or restatement of items charged to expense in the past is very clear. It means, in my opinion, that costs which were recorded in the past in accordance with accepted principles of accounting at the time may not now be reaccounted for and the election at the earlier date annulled merely because of a change in view or purpose.

"The very nature of business transactions makes it mandatory that consistent accounting principles and practices be followed. As to many expenditures there is no sharp line of demarcation between operating costs and capital costs. It has constantly been recognized by accountants and acknowledged by the courts that it is often difficult to draw a precise line between expenditures for construction and those expenses which are incidental to operating or maintaining the plant. Hence a great deal of discretion, that is, managerial discretion, must be exercised in each determination of costs. Practical methods vary not only among industries but also within any particular industry. This in itself is not objectionable. The important thing is that some acceptable method be adopted and adhered to consistently, changes being made whenever advisable for the future and proper publicity given to any change of method.

"The problem of matching costs with revenues is not simple in practice. Many costs are joint costs in one way or another, that is to say, they consist of expenditures incurred which represent services applicable to two or more items or functions. Some of the costs of manufacturing industries are allocated to as many as hundreds of products. The cost of hauling different classes of freight is a problem of joint costs which still defies practical solution. The cost of distributing electricity is so difficult of deter-

mination that very few cost studies have ever been published in connection therewith. The reason is joint costs. The most common joint costs are overheads or indirect costs. Overhead or indirect costs are costs which are not incurred directly or solely for an individual item or function. Therefore, overheads must be allocated or prorated on some basis to the several items or functions to which they are related.

"There is not just one and only one acceptable method of allocating or prorating overhead costs. Many methods are in practical use. Great choice is allowed in the field of accounting and management. No system of accounts prescribed by any regulatory commission, to my knowledge, lays down the basis or method which must be followed in making distribution of overhead expenditures. It is important that the method of allocation be equitable and that reasonably accurate accounting results be obtained, but further than this the various uniform systems of accounts are silent.

"It is not necessary under accepted principles of accounting that overheads, such as general and administrative expenses, be classified as construction overheads at all. When an industrial or commercial concern constructs a new plant, it does not usually charge to the cost thereof any amount for regular officers' salaries, even though officers whose compensation is normally charged to the general and administrative expense accounts spend considerable time in supervising the construction work. The classification of accounts prescribed by the Interstate Commerce Commission for steam railroads prohibits the allocation of general and administrative expenses to construction. General and administrative expenses go on generally in the same amount whether or not any construction is in progress, and there is good logic to support the principle that only such part thereof as is incurred specifically for construction purposes should be capitalized.

"For several years during the late 1920's and the earlier 1930's, while associated with public accounting practice, on numerous occasions I examined the records and the accounting practices of companies in the extractive industries, particularly coal mining companies and natural gas

companies. These engagements included comprehensive annual audits of the accounts of such companies, investigations in connection with acquisitions of such properties, and preparation of their Federal income tax returns. As previously stated, the extractive industries frequently charge many items to current expenses which other industries, particularly the utility industry, would likely charge to plant. Generally speaking, the extractive industries are and have been much more conservative in charging items to plant than other business enterprises. There is a decided tendency on their part, well supported by accounting principles and practices, to charge items to expense rather than to plant.

"One theory of accounting followed by a great many coal mining companies, representing the views of able management and accountants in that industry, involves charging directly to expense any addition of property or plant or other expenditure required to maintain the productive output of the mine. This often includes large units, such as locomotives, cars and long stretches of new track and large amounts of related development costs. This practice has been accepted by the Bureau of Internal Revenue for income tax purposes, if followed consistently, and was upheld in the courts.

"For many years it was practically the universal practice of natural gas companies, and I understand it is still the practice of some oil companies, to charge what are termed 'intangible drilling and development costs' to expense. These items are wages, fuel, repairs, hauling, supplies, and so forth, incident to and necessary for the drilling of wells, preparation of wells for production of oil and gas, and similar expenses for gathering lines. To a much less extent the cost of labor in laying transmission and distribution lines as distinguished from gathering lines was also charged to expense. I do not believe, however, that this latter practice was very widespread. In the past natural gas companies have been more reluctant than electric utilities to charge overhead costs to plant accounts.

"The so-called intangible drilling and development costs have been charged to expense under the principle that they represent cost of keeping up and maintaining the business

rather than the cost of improving it or adding thereto. The accounting practice is based upon the reasoning that the cost of drilling wells and laying gathering lines are for the purpose of maintaining a supply of gas and not adding to that supply. It has been pointed out that the old wells were being exhausted and new wells had to be drilled in order to maintain the supply of gas for customers. The cost of materials such as pipe, casing, and so forth, could be salvaged later but the miscellaneous charges I have mentioned have no salvage value. Hence only the cost of material could be capitalized under the principle referred to above. The principle and practices applied represent sound, accepted accounting if adhered to consistently.

"In the early income tax laws, such as the Revenue Act of 1918, the problem of accounting for the so-called intangible costs arose. Article 223 of Regulations 45 relative to the 1918 Revenue Act specifically allowed natural gas companies the option of charging such items to expense or of capitalizing them. However, once the taxpayer had exercised his option, he was required from then on to follow that method consistently. It is a basic philosophy of the income tax law, that the taxpayer's accounting method should be followed for computing taxable income unless his method clearly does not result in the true income.

"Numerous authorities have sanctioned the charging of intangibles to operating expense. The Public Service Commission of West Virginia and the Public Service Commission of Indiana have allowed such items as expenses in rate proceedings. Under the present uniform system of accounts for oil companies issued by the American Petroleum Institute, it is permissible to charge the items in question to current expense by means of a reserve account. When the Public Utility Commission of Pennsylvania had under consideration in 1919 a system of accounts for natural gas companies, the accounting committee of the Natural Gas Association of America appealed to that commission to include drilling costs and the costs of laying gathering lines as current expenses.

"The foregoing indicated accounting practices of the extractive industries conform to sound accounting principles even though they differ (for good reason) from the practices followed by most other industries. These practices

are and have been very widespread and we may, therefore, characterize them as general practices in the extractive industries. They have long represented accepted principles of accounting and have been the basis of reports to investors, prospectuses, security listings and income tax returns. The only reason that some of the natural gas companies do not follow the same practices today, in my opinion, is that systems of accounts prescribed by regulatory commissions having jurisdiction require a different practice.

"The fact that the new systems of accounts do not permit continuation of some of the former practices is not any indication that they were wrong or unacceptable. Uniformity in regulation of utilities is generally considered desirable and with that in mind accounting methods deemed preferable have been written into the systems of accounts effective as of specified dates, but not made retroactive prior to such dates.

"In order to understand more clearly the significance of the foregoing discussion it is necessary to consider the relative importance of the income statement as compared with the balance sheet and particularly the plant account.

"The accounts which are reflected in the income statement, that is revenue and expense accounts, are the media through which costs are matched against revenues. Here is indeed the crux or the central problem of accounting, the pivot around which all accounting phenomena revolve. Professor Paton has recently expressed the same idea in slightly different language as follows: (See page 7 of 'Recent and Prospective Developments in Accounting Theory' by William A. Paton, published by Harvard University Graduate School of Business Administration, 1940).

"'Costs' rather than 'assets' is the significant term in presentday accounting. Costs are incurred and are charged to cost accounts. From time to time the pool of costs is analyzed for the sake of determining the charges to be applied to current revenues on the one hand and prospective revenues on the other. After absorption of the expired costs the amount to be deferred emerges as an 'asset' balance."

"This means that the income statement is much more important in accounting than the balance sheet because the

latter is only incidental to the truly essential accounting processes which are related and expressed in the income statement. The balance sheet comes into existence mainly because of the necessity of periodic reckoning, that is matching of costs against the revenues of a particular period, and the attendant deferring and accruing of costs.

"This increasing recognition of the greater importance of the income statement has been inevitable as generally better understanding of accounting principles has gradually evolved. Qualified accountants have recognized the importance of income accounting for many years and it is believed that laymen now have attained a much better understanding of this real emphasis of accounting.

"Because of the fact that matching costs against revenues is the central focus of accounting it is more important that all expenses be included in the income statement than it is for every conceivable item to be charged to plant. A company which follows the practice of ascertaining all costs which under some theory may be called plant costs, while leaving out of consideration the setting of accounting transactions when they occurred and ignoring the expense side of the problem, does not follow good accounting. Its accounts are biased, not wholly truthful, and to say the least the company is guilty of false emphasis. It is more logical and much better accounting to follow the principle of making sure that all the expenses are accounted for as such and of considering the residual costs as plant rather than vice versa.

"Consistent adherence to a sound scheme of accounting can result in no duplication of costs. Once a cost is matched against revenue it disappears from the books, so to speak, because its expiration is recorded as an accomplished fact, that is as an expense. Under proper accounting this expense or expired cost cannot at some future date be reinstated as a legitimate cost and again matched against revenue as a legitimate expense. This likewise prohibits such a cost from being restated to the plant account because that treatment presumes that the cost would be subject to depreciation which would mean that the cost would ultimately be matched in segments against revenues of a succession of periods as a result of the annual depreciation charges. This too would be a clear duplication of costs.

"Departures from coordinated and consistently applied accounting concepts in making original cost studies often yield results which are inaccurate. An original cost inventory and valuation which ignores the fact that certain items were charged to expense on the company's books is not valid. One typical example will show how false a result can be obtained by improper methods. A pole which is rotten at the ground line is saved for the time being by the installation of a stub. The cost of the pole stub is a proper maintenance expense charge and is generally so considered by accountants.

"It would therefore not be a proper charge to plant. However, a valuation man in taking an inventory sees the pole stub and may assign a value thereto and include it in his original cost estimate. Obviously his method would result in duplication and falsification in the company's accounts. This is but one typical example of numerous similar possible misapplications of the original cost principle. Another way of illustrating this same possibility of error is to visualize what would happen if two men were sent out independently of each other, one to compute all the expenses which by any stretch of the imagination could be called expenses and the other to compute plant costs with instructions to include every conceivable item which could be termed plant cost. It is apparent that their results for the same company would show much overlapping and duplication. This would come about because each would place emphasis on only one side of the transaction. Each emphasis would be a false emphasis and it is probable that each result would be incorrect.

"May I repeat and re-emphasize at this point that an original cost study to be valid must conform to consistent accounting principles and if proper results are to be obtained the transactions entering into such a study must be viewed in the light of all their atmosphere and settings both individually and as an interrelated whole.

"Reproduction cost new studies which include a value for items which were charged to maintenance on the company's books also violate one of the principles of logic that dominate the science of accounting, that is, that the

same expenditure may not be considered both plant and maintenance. It may be either capital or expense but it cannot be switched from one to the other so as to best fit the particular occasion or purpose.

"Another particularly unsound practice which violates the accounting principle that costs which have been accounted for as expired may not now be reinstated as capital, is for a utility company to claim in computing its rate base observed depreciation which is less than the accrued depreciation computed on its books as a result of annual accruals to expense.

"So far as accounting is concerned this would have the same effect as adding to the plant account items which had been charged to expense during prior years. In either case it would constitute including in the rate base charges which had been made to expense in previous years, which had been already matched against revenue and had therefore expired in view of the company's accounting practices as exercised under the discretion of management."

(Vol. LVIII, pp. 8268-8294.)

Whereupon—

KENNETH L. SMITH recalled as a witness by and on behalf of the Federal Power Commission, having been previously duly sworn, was examined and testified further as follows:

Cross Examination.

By Mr. Dougherty:

Q. Mr. Smith, do you recall the volume that is recorded in the testimony which you gave with respect to certain accounting principles and practices?

Mr. Lange: Mr. Dougherty, that is in Volume 58, Pages 8268 to 8294.

By Mr. Dougherty:

Q. You are familiar and recall the statement which you read into that record?

A. Yes, sir.

Q. When did you prepare this statement under question, Mr. Smith?

A. I started the preparation of it, I believe either the latter part of November or the first part of December 1940 and worked on it from time to time. As I recall it, I completed it in January 1941.

Q. Have you prepared any similar statement or article that is similar to this?

A. No sir, I haven't.

Q. Did you ever write on this subject, the same subject which is discussed here for any accounting magazines?

A. You are referring to original cost principles, I take it?

Q. Yes, I think so.

A. No, sir.

Q. What authorities did you study in preparing yourself for the writing of this?

A. Well, as far as the general accounting theory is concerned, I think I can say I drew upon the studying I have been doing for a number of years. Now, as to specific research, in seeking to find out what is involved in the original cost principle, I have examined the Commission's Uniform System of Accounts for natural gas companies and also for electric companies; I referred to the publication of the National Association of Railroad and Utilities Commissioners which I believe is quoted on Page 5 of my written statement; I had occasion to refer to the system of accounts for natural gas corporations prescribed by the New York Public Service Commission; I studied very carefully an article written by Mr. Charles W. Smith on original cost which was published in the Accounting Review during 1937.

Mr. Lange: Mr. Charles W. Smith is the Chief, Bureau of Finance and Accounts, Federal Power Commission?

The Witness: Yes, sir, Bureau of Accounts, Finance and Rates.

I also had occasion to read some testimony which Mr. Charles W. Smith had given in the Northwestern Electric Company case, an original cost case. It so happened I had occasion to discuss this same problem personally with Mr. Smith in August 1940 when he was in Colorado Springs for one day.

I referred to the Uniform System of Accounts for oil companies sponsored by the American Petroleum Institute.

Mr. Dougherty: I didn't hear the last of that answer.

(The record referred to was read by the reporter as set forth above.)

The Witness: I drew upon my knowledge partly from memory of the system of accounts sponsored by the National Coal Association for coal companies and a book on the subject of coal mining accounting which was written by a man named Reed. I read those publications sometime in the 20's when I was doing considerable work on coal companies. In the latter 20's and the early 30's I had occasion to become very well versed with those two sources of material pertaining to coal companies.

I had recently examined a couple of publications on the subject of accounting theory one of which I believe I quoted in my statement. That was written by Professor William A. Payton and entitled "Recent and Prospective Developments in Accounting Theory," and the other one was written by Professor William A. Payton and Professor A. C. Littleton, entitled "An Introduction to Corporate Accounting Standards."

Those two publications do not relate specifically to the subject of original cost but they do form a part of the background and I quoted one of them at one place in my statement.

By Mr. Dougherty:

Q. With respect to the question of original cost, you have just said the articles you last mentioned did not deal with that principle. What about the recommended Code of Accounts of the National Coal Association? Did that deal in any way with the principles of original cost as you have discussed it in your statement?

A. Not directly. The reference I made to the system of accounting sponsored by the National Coal Association was merely to indicate an authority which would back up or support some of the information which I gave concerning the theory of coal mining accounting as I found it.

Q. That is the portion you refer to under the reference to extractive industries and coal companies?

A. Yes, sir.

Q. But the code as recommended by the National Coal Association does not contain within it this principle of original cost as is contained in the Natural Gas Code proposed or adopted by the Federal Power Commission?

A. No, I merely make reference to that system as a support to my contention as to what the practices were in the extractive industries at that time.

Q. Now, with respect to the code recommended by the American Petroleum Institute, what, if anything, does that deal with—the subject of original cost as you have discussed it in your statement?

A. It doesn't deal with it directly but it merely reflects the accounting of an extractive industry.

Q. There again the principles of original costs as defined in the utility code adopted by the Federal Power Commission are not embodied in that recommended code for petroleum companies?

A. Not directly certainly not as such.

Q. Well, there is no requirement in there or no recommendation that the petroleum company shall set up on its books as cost the cost to a predecessor company from which it purchased assets rather than the cost to the accounting company?

A. Of course, I don't believe your statement quite draws the distinction. What I really mean is that it doesn't require it to earmark the excess that it paid.

Q. Doesn't it provide for the setting up of capital assets purchased by a petroleum company at the price paid by the accounting company?

A. Yes, I believe essentially that is true.

Q. It is also true, Mr. Smith, that in these business enterprises that are not regulated such as the utility companies, there isn't any practice of making that distinction between the cost of property purchased by the accounting company and the cost to the selling company?

A. Not ordinarily unless that intangible, if it is an intangible, happened to be reflected in a good-will account or something of that nature.

Q. If a petroleum company, for example, bought a group of leases and wells and paid a million dollars for them in

cash, that would be the cost which would be set up on the books of that petroleum company and not whatever the amount happened to be, the cost to the selling company?

A. That is true. If I may qualify it I would state that under some circumstances even a part of this million dollars might necessarily have to be accounted for as an intangible and there you would have a comparable situation to either Account 100.5, Plant Acquisition Adjustments Account, or Account 107, Plant Adjustments Account.

Q. Where the money, however, was paid for physical property and there was no such thing as good will and trademarks or what-not involved, isn't the statement I made correct?

A. Yes, I believe it is if it is purely for physical property.

Q. So the authorities which you have mentioned in your statement that deal with this question of original cost as discussed by you are in effect the Federal Power Commission, the National Association of Railroad and Public Utilities Commissioners and the Chief of the Bureau of Accounts, Finance and Rates of the Federal Power Commission, Mr. Charles W. Smith, isn't that right?

A. I made some reference there to the Public Service Commission of the State of New York.

Q. So that in every instance the authority with respect to the question of original cost is either some State or Federal regulatory body or some official connected with such a regulatory body or the association which is composed solely of members of these regulatory bodies?

A. Yes, as far as I know, I don't know of any other authority that has written upon the subject of original cost.

Q. That was the question I wanted to ask you, with respect to accounting authorities not connected with those regulatory bodies. Have there been any documents or articles written, or books written on this question of original cost and accounting as provided for by the Federal Power Commission Code and as discussed in your statement?

A. I don't know of a single book that has been written. There have been a few sporadic comments at one time or other in a few of the journals, I believe; however, I don't know of any other article that was ever written by an accountant whom we might say had approached it from an

academic standpoint and had made it a sound unbiased treatise. 'I don't recall of any such article that has been written, or if it has been written it has never come to my attention, and I have made it a point to try to find out whether or not there have been such articles written.

Just in order to test this paper which I wrote here, this testimony, I sent a copy of it to Professor H. T. Scovill, head of the accounting department of the University of Illinois, where he has been for a number of years, asking him for his very frank reactions to it so as to get his impression. He was fairly complimentary on the article and said that he thought I had given a very good analysis of the original cost idea and he particularly commended that feature of it which denounced the claiming of something in the capital account, plant account, which had also once been claimed in the income account, especially for the purpose of setting rates.

Q. Does he teach public utility accounting at the University of Illinois?

A. There is no special course in public utility accounting—He was at one time consulting accountant for the Illinois Bell Telephone Company for a number of years and I understand he has handled cases before the Illinois Commerce Commission. I said there was no special course in public utility accounting and I want to modify that.

There is one graduate course that deals with all systems of accounting, including utility accounting and he does teach that course.

Q. The doctrine of method of original cost accounting as described by you has been the subject of considerable controversy between the Public Utilities who are subject to regulation by these regulatory bodies and the accounting staff of the regulatory bodies, has it not?

A. Yes, I believe that in general the public utilities have resisted the original cost idea.

Q. Isn't it a fact that a number of articles have been written by accounting officials of those companies which have expressed their disagreement with it and their reasons for that?

A. I am not familiar with any specific article now except in following the Public Utilities Fortnightly for some years; I believe I can recall having seen one or two articles and possibly more in that journal written by—I am not sure whether they were accounting officers or not, but I recall having seen expressed disagreements with the original cost principle.

Q. Have you ever read any of the articles or addresses, public addresses, delivered at various meetings of the accounting groups of either the electric or gas industries in which this question has been discussed, and particularly the question of what you call reaccounting as distinguished from reclassification?

A. I don't recall any specific article upon that.

Q. Have you attempted to keep up with all of the literature on the other side of the question, as well as that on the side with which you are in agreement?

A. I can't recall of ever having refused to read an article that I found on the subject.

Q. That isn't what I asked you. I asked you if you tried to make an attempt to keep in touch with them and find out what was going on and read them so you would know fully everything that has been said on the other side as well as what has been said on your side of it.

A. Well, I believe I have, but—that is, I have tried to fully inform myself on the subject matter.

Q. You were aware that there has been a great deal of discussion on this question since the Federal Power Commission first started to put the principle into effect in its Code of Accounts for electric utilities?

A. Yes, it has been attacked in a great many places.

Q. Have you ever read articles by Professor Madden—I think he is Dean of the College of Commerce of New York University—on the subject?

A. I don't recall having read his articles.

Q. Do you know whether or not he has taken the position opposite to that expressed by you and which you say has been approved by a professor at the University of Illinois?

A. No sir, I don't know that.

Q. The idea of this original cost accounting was accepted by you first at what time, that is, when did you first become acquainted with it?

A. I first became acquainted with it in the latter part of 1936.

Q. That is when you first went to work for the Federal Power Commission?

A. Just about that time, yes, sir.

Q. That is and has been the source of this question of original cost accounting, hasn't it, the Federal Power Commission?

A. You mean they have originated the idea?

Q. Yes.

A. This same principle is in the Federal Communications Commission's system of 1935, I believe.

Q. Well, when was the electric code adopted by the Federal Power Commission?

A. It became effective January 1, 1937.

Q. The Power Commission, however, had been urging the adoption of this principle upon the National Association of Railroad Utility Commissioners long before that, hadn't it?

A. I am not so sure that is exactly the fact. In my discussions of the history of original cost with Mr. Charles W. Smith I have always gained the impression it was a joint product of the accountants for the Federal Power Commission and the National Association of Railroad and Utilities Commissioners; that is, the conditions that were disclosed by the Federal Trade Commission's reports were so far from meeting the ideals of regulation and good utility accounting and the condition of the books of so many utilities was so chaotic that those people interested in regulation apparently seemed to be of about the same mind and at about the same time, as soon as the fact became disclosed through the Federal Trade Commission's reports, that something had to be done.

Q. The source of it was in regulatory groups rather than in some independent body of accountants or accountancy or experts in accountancy who might be teaching in the Universities?

A. I believe that might be true. It is just a case that necessity is the mother of invention.

Q. Your statement of the chaotic conditions of the books, is that based upon your examination of these books of the utility companies you speak of, or is it based entirely on the reports of the Federal Trade Commission?

A. Not entirely upon the reports of the Federal Trade Commission. When I was with the Federal Power Commission in the Washington office for a period of nearly two years I was in the Division of Finance and one of my principal duties at that time was to study the accounting and financial aspects of applications by electric utility companies for merger, consolidation, sale of property, and issuance of securities; and incidental to those applications the applicant company was invariably required to furnish the amount of writeup or whatever we could choose to call it in their plant accounts. If they didn't know what it was they were required to estimate it, and from having reviewed the accounting and financial aspects of possibly 30 or 40 applications of different companies I found that practically every one of them came in admitting those things, so I believe that is good enough experience to draw a generalization.

The Trial Examiner: We will stand in recess until 2:00 o'clock.

(Whereupon, at 12:30 o'clock, p. m., a recess was taken until 2:00 o'clock, p. m., of the same day.)

Afternoon Session, 2 P. M.

The Trial Examiner: The hearing will be in order.

Whereupon—

KENNETH L. SMITH, the witness on the stand at the time of recess, having been previously duly sworn, resumed the stand and testified further as follows:

Cross Examination (Continued.)

By Mr. Dougherty:

Q. Mr. Smith, I believe Mr. Charles W. Smith who is head of the Bureau of Accounts, has given similar testimony to this statement of yours in other proceedings before the Federal Power Commission.

A. I know of one in which he gave testimony that was very similar.

Q. And that is the testimony you studied and considered in preparing this?

A. I read that testimony.

Q. Well, as a matter of fact, some of the latter part of your statement is pretty much copied from that, isn't it?

A. No, I don't believe it is copied from it.

Q. Isn't it exactly the same as some of Mr. Charles W. Smith's testimony in the Northwestern Electric case which was an accounting reclassification case?

A. I think the meaning and import of it is very similar, yes, but as far as being copied, it wasn't copied.

Q. Well, if it turned out to be identical with a great deal of the language used by him, that would be a coincidence rather than just copying it out?

A. I'm afraid it would be. My association with Mr. Smith has been pretty close for a number of years and I have discussed these things with him many many times. I was reading over his article published in the Accounting Review on the subject of original cost and reviewed in 1937, it again after completing this article—this testimony. I found a great similarity of wording between those two articles.

Q. He has been very active in establishing this original cost theory through the National Association of Railroad and Utilities Commissioners?

A. My understanding is that he has worked very closely, in very close harmony with the association's committee on accounts and statistics.

Q. As a matter of fact, wasn't he quite a dominating influence in the deliberations of that body of the things they finally decided to adopt in the form of codes of accounts to be recommended to the various state committees?

A. I have never known him to admit that he was the dominating influence.

Q. I just asked if that wasn't so as you knew it.

A. I don't have any first-hand knowledge on which to base a conclusion like that. I know that he did work with the committee and whether he dominated the committee or not, I don't know.

Q. The electric code and also the national gas code were originally prepared under his supervision, were they not, and then submitted to the National Association of Utilities Commissioners for consideration by that body?

A. My understanding of the history of the electric code was that Mr. Charles W. Smith was appointed as a consulting accountant by the Federal Power Commission in 1935 and that his instructions were to work with and to cooperate with the Committee on Accounts and Statistics of the National Association in preparing a new code of accounts.

My understanding is that it was a joint product and it was so intended at the time of its inception.

Q. When you mentioned the fact that this original cost document has been accepted by a great many of the electric utilities and also that the natural gas code is rapidly attaining wide acceptance, do you mean that the various gas utilities are voluntarily accepting those principles or do you mean that it is being accepted by the regulatory authorities?

A. Well, I think what I really meant was that it had been adopted by the regulatory bodies and prescribed.

Whether or not the utilities are accepting it voluntarily or involuntarily, I don't know, as I haven't made that study.

Q. Of course, having the authority prescribed in the code of accounts, after it is once prescribed the utility has no alternative. You understand that, do you not?

A. Well, I suppose they always have what legal rights they have. I don't know.

Q. You mentioned that original cost in order to be valid had to be obtained by an accounting method. Now, is it your intention by that sentence to mean that in no other way can you attain what the actual cost of a piece of property is except by going to the books and finding out how the capital cost of that is recorded?

A. I think that is essentially true. Let me put it this way: The results shown on the books cannot be ignored. They have to be the central theme around which the amount of dollars set up for original cost must be determined. Sometimes a breakdown as between classifications or accounts necessarily has to be done by some other method than accounting.

Q. Then it is your understanding that original cost is purely an accounting viewpoint or an accounting term that

has no reference to anything except matters of keeping of accounts?

A. That is my interpretation, my opinion as to the original cost idea of principle as set forth in the Federal Power Commission's Uniform Systems of Accounts. In order to be a valid study it must be approached from an accounting point of view and must not ignore the results shown on the books.

Q. Well, is it your understanding that original cost has no other significance except as related to the books?

A. Under this system of accounts I believe that it must be related to the results shown on the books.

Q. With respect to a good deal of the general language that you use in here about the conditions of accounts of various utilities, was it your intention to apply that general language to either the Canadian River Gas Company or the Colorado Interstate Gas Company, particularly on Page 3 of your statement? Refer to that.

A. When I wrote that paragraph I wasn't thinking specifically of those two companies at the moment; however, it does seem to me that when the original cost principle is applied to those companies that possibly some of these things are applicable.

Q. Were the books of the companies in such hopeless condition that your Examiners were unable to ascertain the adjusted original cost satisfactorily?

A. No, I believe that as far as Colorado Interstate Gas Company is concerned, Mr. Schutte was able to spell out the original cost in a very satisfactory manner—that has been my understanding—and as far as Mr. Luttring's study was concerned of the predecessor of the Canadian River Gas Company, I believe that his testimony shows in one minor instance only was it necessary for him to resort to estimates; that is, he was able to get the information to build up his original cost from the books of the predecessors and of course from the Canadian River Gas Company books in so far as its construction was concerned.

Q. In a case where a company's books did not show the actual cost of the property, was it a practice to resort to estimates?

A. I think the estimates are confined largely to where records can not be located for predecessor companies and

that sort of thing. If there is a set of books, presumably that set of books will show what the company accounted for as its plant, and assuming that it didn't charge items to plant that were erroneous, the balance in the plant account, if it were the company which first devoted the property to public service, would probably show the original cost as contemplated.

Q. Where you have accounts in such shape that you have unidentified amounts and can't determine them very well, how are you by your reclassification process going to set up any better set of books than they have in the first instance?

A. Well, I think that applies to the statement I made just a minute ago, that when the total original cost is determined, it is also necessary coincidentally to break it down between classifications under the original cost provision of the Uniform System of Accounts and it is at that point that the total amount of dollars representing original cost can be broken down by estimates if there is no other means available.

Q. When you get through in such a case, don't you have just as unsatisfactory a record of what actually took place as you thought the original record was?

A. No, I don't believe you do. If your total dollars are correct and if you have established a breakdown which can be used for retirement accounting with reasonable accuracy, I think you have made quite a gain.

Q. In the character of books you are speaking of that are very unsatisfactory and have not been kept with the detail that is necessary, you would have just as much difficulty with your retirements, wouldn't you?

A. Yes, that is one of the objections to that kind of accounting, because retirements were often times not made on the excuse that there wasn't any information available with which to make the retirement.

Q. What do you mean exactly by an accounting method in determining original cost?

A. Well, the primary consideration is that the dollars accounted for as plant on the books of the company first devoting the property to the public service be given the primary consideration in setting up the original cost. In other words, that is a fact and circumstance that cannot be ignored.

Q. Is there no other way you can go out and determine the actual cost of a piece of property except by looking at the capital accounts on the books, plant accounts?

A. I might say that an inventory method might be used if it were subject to certain limitations and those limitations tie right back into the accounting; that is, if an inventory was taken, it would be necessary to divide the items in your inventory into at least two groups, those items which were capitalized on the books and those items which were expensed on the books.

Then in order to price that inventory, it seems to me that it would be necessary to go back to the records to find out the cost of the individual units and of course those units which had once been expensed could not be reinstated into the capital account under the original cost concept unless there was conclusive evidence that the expensing was purely an accounting error.

Q. You could, however, determine the actual cost of that inventory by going to the invoices and job tickets and finding out the exact expenditure of money that was involved in placing that property into plant?

A. If it were done with due discrimination, as I have stated before, and if the person who priced the inventory understood accounting methods, and knew how to interpret accounts and would rely basically upon accounting data as reflected upon the books, he might come to a satisfactory result by pricing out the inventory within those limitations.

Q. You are cognizant of the different definitions of book costs in the Federal Power Commission Code of Accounts for natural gas companies and the definition of cost, book costs being Definition 6 and cost being Definition 10?

A. Yes, I am familiar with those definitions.

Q. Now, I think that it is your position in your statement that having once accounted for the cost of a piece of property through the expense accounts that it should always be left there and that there could be no change by putting the actual cost of that property into plant account at a later time.

A. Assuming that the original accounting was not purely an accounting error. If there was any discretion exercised either by management in the interpretation of a system of accounts or in its broad power of discretion as management, then it is my position that any amount which was charged to expense must remain as expense. In other words, it cannot be restated at some subsequent time in order to serve a change in purpose.

Q. Well, that would result, would it not, in some instances in what you have as book costs not being the exact number of dollars as costs as defined in Definition 10 under the FPC Code.

A. Well, of course, 10 is a very broad concept that relates both to capital expenditures and to expenses and it is an accounting concept. The accounting concept of cost relates both to what we term capital expenditures and revenue expenditures or expenses. Any outlay of money is made with the idea that—with the purpose in mind eventually that outlay of money or cost will eventually be matched against revenue at some day or another, whether it is today or whether it is done in segments over a period of fifty years, for example.

The primary purpose and the fundamental accounting principle is just the same, so cost as used in Definition 10 is a very broad concept.

Q. Well, as it says, it is the money actually paid for property.

A. Or services.

Q. Now we are talking about plant, so whatever property is bought, the money actually paid for that and the services or labor involved in installing it would be what the cost was, wouldn't it?

A. Well, if the company didn't account for it as plant, though—

Q. Well, now, doesn't the cost occur before the accounting occurs?

A. You mean in this sense—as the expenditure is incurred we might say that all costs might be thought of as one common pool of costs and then your next step in the accounting process is determining when you are going to match that cost against revenue.

Q. Well, the accounting is recording what the cost is, isn't it?

A. Yes. I suppose what you have in mind is that the transaction might be consummated, the purchase and sale, before it ever gets on the books.

Q. Isn't that what your books are for, to record the transactions that have taken place?

A. I think that is a fair statement.

Q. So that you could in case of following out the concept of original cost as you have it, might have a book cost which is different than the actual cost of the property or services; that is, the book cost in the capital account?

A. It is very obvious that the total cost of a company over any period of time is going to be greater than the portion of that cost which it classifies in plant.

Q. Yes.

A. Because it is such a broad comprehensive term.

Q. Now you mention the discretion exercised by accounting officers in charging certain items of cost to expense and I assume that when you use that word "discretion," you mean that there are situations where either the charge might be made to capital or might be made to expense and that having exercised that discretion, then the decision is made and the charge is accordingly put on the books?

A. Yes. I think I can explain that in this way, that a company which is free to set up its own accounting system in accordance with the policies that it thinks are desirable, may adopt a policy and as a result of that policy it might be charging certain border-line items to expense while another company just like it that may be just across the street from it might adopt a policy a little different and I would hope that each of those companies would adhere to its policy consistently.

The similar company across the street might decide that those border-line things were capital and might choose to capitalize them instead of expensing them.

Q. Now, under the rules established by the Power Commission on making these reclassifications and under your concept of your original cost, neither company could make

changes in its plant account when it would come under the provisions of such a code as the Federal Power Commission code, and that would result, would it not, in two companies assuming that they had identical property, having different original costs shown on their books?

A. I believe that that is correct. You are assuming similar conditions all the way through.

Q. Yes. It is not—isn't that the logical consequence of the rule that you say is the underlying basis of original cost, namely, making no changes in your capital accounts at a later date because of some new code being adopted, isn't it the natural result that two companies with identical items of property who followed different concepts of putting property into capital or charging it to expense would have different original costs on their books?

A. I think that is true, assuming of course there are no compensating factors of any kind.

Q. If the charge had erroneously been made in the first instance, you recognize that the change should be made?

A. If it were an accounting error, I believe that our Code of Accounts is sufficiently broad to permit the correction of an accounting error. Of course some codes will not even permit that.

Q. Now, for example, you take the matter that you have referred to later in your statement of the practice of natural gas companies formerly, in years gone by, charging to expense all of the labor and intangible costs. I believe Canadian River capitalized all those intangible costs?

A. That is my understanding.

Q. And that was accepted as being an appropriate charge to capital account?

A. Yes.

Q. Now, if instead of doing that, Canadian River Gas Company had followed the practice as some companies have done of charging to expense all of those intangible drilling costs, labor and amounts paid to contractors, I assume it would be your interpretation now that they could not include those costs in the determination of the original cost of their wells?

A. Yes, that is my opinion as the proper interpretation of this Code of Accounts.

Q. Yet in both instances the same amount of money

would have been paid out for the well—the actual cost of the well would have been the same, wouldn't it, irrespective of how the books are kept?

A. They apparently wouldn't have so regarded it—

Q. They would have paid the contractor the same in either event?

A. Without reference to what they thought they were paying it for. You see they must have had a different frame of mind—

Q. I am talking about the dollars. They would pay the same dollars.

A. If you limit it to that statement, they would have paid the same dollars.

Q. And that is what the code says cost is, the money actually paid for property or services, so the same amount would have been actually paid for property or services irrespective of how they kept their books.

A. Yes, but I think it is significant to leave in the words "or services."

Q. Yes, because services are intangible.

A. They would apparently have regarded them as expenses or they wouldn't have expensed them at the time.

Q. Now, if they had not regarded them as expenses but had regarded them as services in connection with the installation of wells, I again say you would not suggest that that method of treating those costs be changed now?

A. Well, of course, that is just what they did. They did capitalize them and we have, I believe—and they did consistently—and we have recognized that as having been acceptable accounting under the practices of the industry at the time the accounting was done.

Q. Now, are these principles that you have discussed in your statement and about which you mentioned—is it your thought and your judgment that those principles are to be applied to determine the actual legitimate cost of the property which the Commission is directed to determine by the Natural Gas Act which in turn would be used as a rate base, say for determining rates?

A. I don't think I can answer that question. I don't believe I can say exactly what was contemplated in the Natural Gas Act by the term as to legitimate cost and I certainly don't know what the Commission will consider when it sets the rate base.

Q. I want to know what your judgment and opinion is when you make in this statement as you do on Page 4, that original cost is an element to be considered in the computation of the rate base, and the only manner in which original cost can properly be ascertained is by an accounting process.

Now, is it your opinion that the original cost as determined by your accounting process by the limitations which you have indicated is to be taken as the actual cost of property for consideration in determining the rate base?

A. Well, I believe that would be the actual original cost and as to any other factors that the Commission would consider in setting the rate base, I am not informed.

Q. Well, if it should consider that—if it wanted to consider the actual cost of the property, is it your opinion the only place that can be found is as reflected in the plant accounts of the company which cannot be changed or reclassified except with the limitations as you have stated?

A. Let's see. I'm not quite sure that I understand that question.

Q. You have stated that original cost could only be obtained by an accounting process, and that means in so doing that you can't make any recomputation of cost of construction now, which would result in changing or capitalizing items that were expensed formerly. Now, is it your intention in making this dissertation in the record that in your opinion the original cost so determined is the cost that is to be considered by the Commission in determining the rate base?

A. Well, it is the original cost which I would recommend without qualification that the Commission consider in determining the rate base.

Q. And going back to the incident of intangible costs on well drilling, then that cost which the Commission would consider would depend entirely on how the books had been kept?

A. Assuming a consistent method all the way through in accounting for plant, in accounting for depletion, with consistency throughout the whole scheme of accounting, that is right.

Q. So you would have in one instance cost that might

be greater by a sizeable amount of dollars than in the other instance and wouldn't then that logically result in higher or lower rates for gas, depending upon the opinion of your bookkeeper back some number of years ago?

A. I would not know about the rates because the weighing of this evidence and the setting of the rates is something that goes beyond the accounting.

Q. Well, there is no other cost that you think the Commission should consider except that which is shown on the books in the capital account?

A. No other original cost. I think there is where a misconception of the original cost scheme comes in. We put certain items in Account 107 and Account 100.5 which is the plant acquisition adjustments account. Now, those items are earmarked. They aren't disposed of at all in setting up an original cost. The disposition of those items depends upon the Commission and the right to dispose of those items is specifically reserved in the system of accounts.

To me the system of accounts says very specifically that "we don't want you accountants to go any further than to earmark these items," so we aren't taking dollars that were accounted for as plant and just wiping them off the books or completely off the record. They are still there. They are earmarked and whatever weight might be given those is something that I am not concerned with as an accountant at all.

Q. We weren't talking about that particular part of your original cost process, but the part of it that has to do with accepting finally at original cost the amounts that were charged to plant account and prohibiting any recomputation of costs of the property that is in existence for the purpose of finding what its actual cost was, now, there, do you not get into a situation where the rate base would be affected by the principles of bookkeeping established by the accounting officers of your company?

A. I would only go so far as to say that the original cost might be affected. As to the effect on the rate base, I wouldn't know.

Q. Then you don't intend this discussion you have had here to be accepted by the Commission as recommending that in determining the rate base that they should give

consideration to the original cost as booked rather than to a determination of the actual cost of that property from the more original records of the company such as vouchers and time tickets and so forth?

A. Well, my sole purpose as I see it is to set forth the rules that apparently should apply in finding original cost contemplated in the system of accounts and to show that the original cost principle as embodied in this system of accounts is consistent with good accounting practice and with good accounting principles but as to the weight to be given to the original cost so determined, I believe that is entirely up to the Commission.

Q. Now, these accounting principles you speak of, are they the same as would apply to industrial customers or any other type of concern that was not a regulated utility?

A. I believe that any reaccounting for items which had been charged to expense in accordance with the discretion of the management would be governed by exactly the same principle of accounting whether it was a public utility and a regulated company or a non-regulated industrial.

Q. Now, is it your position that the income accounts should be maintained with the same consistency as your plant accounts through past years?

A. If the plant accounts are maintained on a consistent basis, it naturally follows that the income accounts would be maintained on a consistent basis for the same period. The two things are so inter-related that the results in one are by virtue of the accounting method itself correlated with the results shown in the other.

Q. Now, when you have made the changes you have in these two companies' depreciation reserves, doesn't it naturally follow from that that you have changed their income accounts in past years contrary to the principles that you have expressed with respect to consistency in not making past changes?

A. No.

Q. Wherein is the difference in what you do and what the company wants to do?

A. The company when it set up its plant accounts expensed certain items which it now seeks to capitalize I presume that Mr. Schutte's testimony shows to what extent, if any, the company might have elected to have capitalized

those items, had it so exercised its discretion originally. In any event, so far as I know the company made no error when it charged them off as expense as they occurred.

Now, when you speak of a change in depreciation you come to a somewhat different phenomena. The two things aren't comparable. The companies' depreciation as viewed by the accounting staff based upon the information furnished by the Commission engineers was regarded as having been an accounting error. It had created a situation in the companies' balance sheet which I have never seen condoned by any accounting authority; that is, the creation of a secret reserve through the overstatement of a valuation reserve. As I said, I have never known of any accounting authority who ever condoned any understatement of net assets or putting it in the converse language, the overstatement of a valuation reserve, and I recall very specifically that every accounting authority that I know of who has touched upon the subject of secret reserves has always denounced it and condemned it.

Q. Well, now, that change in reserves or in the depreciation was made by you as I understand it, upon the basis of information obtained within the last year or so, and as I recall your testimony about it, the change was made on the theory that upon the basis of the information now available the amounts accrued by the company each year were too high, is that correct?

A. That is correct.

Q. Now with respect to the establishment of this code of accounts and the principles that it lays down for capital items, in some instances it is considerably more refined, isn't it, with what shall be charged to the capital items than the practices followed by the company in the past?

A. Not having made the examination of the plant account myself, I will only be able to speak as to my understanding of it and make a general statement.

The prescribing of a code of accounts almost universally does narrow the field of discretion or choice, so I think perhaps your statement is accurate, that there is greater refinement in this code.

Q. Now the following of these new principles which re-

sult in a greater refinement will result, will it not, in more items being capitalized than were in the past?

A. I am not certain as to that. You mean in relation to the Colorado Interstate Gas Company and the Canadian River Gas Company specifically?

Q. That is right.

A. I am not sure as to that.

Q. The necessity of following these rules, however, in the future will cause a difference in the relative condition of the capital accounts prior to the adoption of the code and afterwards to the extent those differences do exist, will it not?

A. What you mean there is going to be in effect a necessary change in accounting policies?

Q. That is right.

A. Probably that is inevitable in this case.

Q. So that when we do get along a few more years we will not have had that consistency in our accounts you speak of; that is, according to your idea we will be consistent up to a certain date and then consistent on a different set of principles from then on?

A. Yes, I think I have covered that in my written statement.

Q. Then the situation with the depreciation means that any changes you make now in the discretion of the company were appropriately made some several years ago?

A. That is the thing I am not sure of, as to whether it was appropriately made. I don't know to what extent the company was influenced by tax considerations and I don't know how good their information was.

Q. Wouldn't that be the same with respect to other items that were expensed instead of capitalized where you accepted the discretion as exercised?

A. Well, no, because on those items—we will assume for the purpose of illustration that many of them, or at least a part of them, maybe all of them, I am not certain as to the facts on that, might have either been expensed or capitalized—they exercised their discretion. They had a definite purpose in mind and the history of the company shows that their revenues covered those expenditures as expenses very amply and they might have even had tax considerations in mind then. I don't know what they did

have in mind. I assume Mr. Schutte's testimony will show whether or not there is any ground for the company claiming they might have capitalized them at all. There is still a question about that.

Q. Well, with respect to depreciation, the company did adopt in the early years a uniform amount, did it not; that is, from 1931 on, and consistently applied that—if not an attempt, a method of determining the amount which was uniform?

A. As I recall it had some changes again in 1937 and 1938 on Colorado Interstate but I don't believe those changes were of major importance.

Q. Those charges are always a matter of the exercise of some judgment, are they not?

A. I think that after you have the data available with which to make the computation that the exercising of judgment must be kept within pretty definite limits or you reach the point of distortion through the guise of it being an exercise of judgment.

Q. Well, those who have determined the depreciation rates for the Federal Power Commission have had to exercise judgment, have they not?

A. Yes, to the extent that judgment is necessary in arriving at an estimate. Technical judgment in that sense is a matter of determination.

Q. So as I say, the question of depreciation is one that is based upon the exercise of judgment?

A. With certain limitations, that is probably true.

Q. Having once exercised that judgment and exercised the discretion of management in charging against income a certain amount of depreciation, aren't you violating the rule you applied to the companies when you now restate that depreciation?

A. No, I believe there is enough of the element of error involved to more than offset the element of judgment there.

Q. Doesn't the rule work both ways, Mr. Smith, that whenever your boys want to make some changes that is an error of judgment and whenever we do we exercise our discretion?

A. Well, I don't believe that I can agree with that. In restating depreciation it would seem to me that we were

making an adjustment there which really operated to the advantage of the company rather than against the advantage of the company.

Q. Now when you state that a certain amount of discretion is permitted and that also the accounting isn't a matter that is agreed upon by everybody, do you mean by that that there are differences of opinion that can honestly be held by different accountants depending upon the view they take of these various matters that you have discussed?

I think you used the term "it is not an exact science."

A. ° That is correct, it isn't an exact science. There have for a good many years I believe been differences of opinion among the accountants. It has been my observation over recent years that those differences of opinion are coming to be narrowed down. The academic approach toward accounting has been based upon logical principles. It is a consistent science which does have a logical basis and has merit for a good many uses, but was largely unexplored until the last ten or fifteen years. As those principles in accounting have been uncovered and spelled out and treated scientifically it has narrowed down greatly—it has served to narrow down greatly the differences of opinion among well-informed accountants who are unbiased.

Q. These two particular principles which are the essence of your original cost scheme, you don't give much *leeway* for difference of opinion on those, do you?

A. What are you referring to specifically?

Q. The restatement of cost when first devoted to public service, although not first cost to the accounting company, as against stated cost in your capital accounts where you had not actually accounted for the actual cost of the property when first installed. In those you laid down a pretty hard and fast rule.

A. I think the code of accounts itself deals with the question of setting out the cost to the person first devoting it to public service. To me that is merely a classification or earmarking certain dollars in a certain way. There is no inconsistency of that principle with any accounting phenomena I know of. I think that where criticisms of the original cost principle have been made they have been made with a misunderstanding of the accounting significance of that process. I maintain that merely earmarking dollars

is as far as the accounting goes. The result of that earmarking is a regulatory process over which the accountant has no control and no responsibility. He merely sets out the dollar amounts that are useful—I believe I stated to the regulatory body, investors, and even to the management under certain conditions.

Q. Now with respect to this other theory that you can't restate the cost of the property that had formerly been expensed, you recognize no deviation from that, I take it?

A. Only where the expensing was purely an accounting error. I have tried to develop in this testimony my reasons for believing that rule was entirely consistent with good accounting principles.

Q. Do you recognize any difference of principle with respect to the application of that rule as to whether or not it results in stating the actual cost under the code of accounts as it now exists?

A. I wouldn't agree with any other interpretation of it.

Q. Well; I know that, but do you admit that there is any other viewpoint taken by any accounting authorities?

A. Well, I know that it has been disagreed with because I heard Mr. Lusk disagree with it here.

Q. You recognize that these two companies were not subject to any regulatory control over their accounts prior to the adoption of the Federal Power Commission code?

A. Yes, I had that in mind all the way through my discussion. That is the reason why I made so many references to what they would do under the broad powers of the discretion of management.

Q. Is it your thought that this accounting code should be applied retroactively to the company's business back to the beginning of it in 1928?

A. The code probably speaks for itself in that respect.

I might summarize briefly what I think about it. When the company is called upon to reclassify its plant account in accordance with certain prescribed language in the code, it seems to me that the very nature of that undertaking does make certain features at least retroactive to the conception of the property or at least when the property was first devoted to the public service.

I believe the code is broad enough to apply any necessary restatement of depreciation or depletion back to the inception but as far as restating all of the income accounts which have been closed and reclassifying expenses for previous years on the basis of this new code, obviously that isn't contemplated.

The code became effective January 1, 1940, for natural gas companies and the only sense in which it retroactive is where the feature of being retroactive is necessarily unavoidable in meeting with the conditions laid down in setting up the plant account and the depreciations reserve.

Q. Do you agree that the importance of keeping the distinction between items that are to be expensed and items charged to plant account become much more important when a code of this order is established and when regulation of rates takes place than it was when there was no such regulation?

A. On account of the necessity of uniformity in regulation I believe that it does become more important under regulation.

Q. Then the fact that your original cost as shown on your books might be used by the regulatory body in determining rate base, doesn't that fact lend more importance to careful accounting as between plant and expense?

A. As to what weight a regulatory body would want to give to that sort of thing, I don't know.

Q. Well, then, your discussion of these principles and your application of them would be limited to a statement of what you think the books shows the original cost and you are not intending by this statement that these principles are recommended by you to be applied in the rate fixing process the Commission will exercise?

A. I am recommending that the original cost is to be considered by the regulatory body in computing the rate base be arrived at in accordance with the principles that I set forth here.

Q. That is, however, without reference to whether the regulatory body might want to determine cost of property by an inventory method or in any other method that might be advised?

A. It seems to me the regulatory body is free to go in

any direction it chooses. Of course I wouldn't give my sanction to it as an accountant—

Q. I take it, then, that your final position is the only original cost or the only cost figures on capital account of this company, the plant account, there should be considered are those as found on the books as adjusted and that you should not go out and determine actual cost of the property in any other way; that is, by taking an inventory and finding out what the actual cost is?

A. I believe you stated the books as adjusted?

Q. Yes. I will put it this way: It is the accurate book cost so you don't need to quibble about whether it was kept by the company or adjusted—

A. I believe that is the only satisfactory manner of computing original cost, to compute it upon the results shown on the books with due recognition to accounting errors and I don't think the inventory is worth the paper it is written on.

Q. And you still stick to that opinion, notwithstanding the fact that we might have an original and different cost of these two companies here depending upon how the books were kept?

A. Yes, so long as either method of accounting was within acceptable principles of accounting at the time and consistently followed.

Q. That would mean in instances of two companies who had followed consistently principles that were slightly different with respect to what should be capitalized and what should be expensed, then you would have for those two companies a different original cost to be submitted to the Commission for consideration in the determination of rates?

A. Yes, there would be a difference and of course that difference would tend to be offset by the difference in the depreciation and depletion reserve at any moment of time, and the nearer you approach the expiration of the property the less would be the difference.

Q. That is because after a long period of time you might have accrued annually through depreciation what you would have charged to capital in the first instance?

A. Precisely.

[Testimony of WILLIAM A. LUSK]

Q. Now, with reference to Item 8 on Statement 2, which is headed "Adjustment for Items Charged to Expense which are Properly Capital," are those items the ones that are covered by this memorandum which is referred to on Page 3 of the exhibit, being entitled "Items Charged to Expense on the books of the Colorado Interstate Gas Company during the period 1930 to 1939, inclusive, which should have been capitalized?"

A. Yes, sir.

Q. You understand that that memorandum was furnished to the staff of the Federal Power Commission?

A. That was furnished in April of this year.

Q. Will you tell us just what you did in working out these adjustments as shown opposite Item 8 on Statement 2?

A. Well, I began with all of the maintenance and operation expense of the Colorado Interstate Gas Company. I had the assistance of practically six men in the Colorado Springs office of the Colorado Interstate Gas Company, and they assisted me, working there after hours. We set a program of four hours at night—from five o'clock until nine o'clock—and we worked approximately four weeks in putting together the data that is shown in that 400-page volume submitted to the Federal Power Commission, the summary of which is shown in Line 8 of this exhibit, Statement 2. In general they represent maintenance and operating expense items which, according to my classification, should not have been expense but should have been capitalized.

Q. I take it that your investigation resulted in your finding only this amount of \$284,806 as of the end of 1939?

A. That is accumulative, that \$284,806. It represents the accumulation of \$17,000 first shown in 1930 with accumulative additions each year.

Q. What were those items?

A. (Pause.)

Q. I don't mean for you to describe each one in detail, but can you give a general heading of them?

A. In general it consisted of the cathodic protection of the main line and laterals up to 1939. Subsequent to 1939 the expense of that particular operation is being capitalized.

Another large item is the rock-weighting of the main line itself. In other words, it was the placing of rock rip rap over the back fill of the pipe line to insure the line remaining down. From my own limited experience I have seen lots of lines under high pressures float.

Q. Is that when washouts occur?

A. That is when washouts occur, yes, sir, principally.

Q. And when you speak of the weighting, is that the placing of material on top of the pipe line?

A. The placing of rock on top of the back of it.

The Trial Examiner: That cost, Mr. Lusk, was charged to operating expense initially?

The Witness: Yes, sir.

By Mr. Dougherty:

Q. What other headings?

A. There is another item which amounts to quite a substantial sum and that is the rip rap and reinforcement of stream crossings to prevent soil erosion and washout of lines going across the streams. That has also been charged to expenses.

Q. Upon what basis or rule do you determine about these items that you have mentioned that they should properly have been capitalized and not charged to expense?

A. My reason principally behind that is that they are preventive and not corrective measures and therefore should not have been expensed.

Q. Did you have anything to do with the setting up of accounts of this company in the beginning in 1927 and 1928?

A. No, sir.

Q. Do you know whether or not any uniform system of accounts was used as a guide in the setting up of the books?

A. The companies, the Colorado Interstate Gas Company, used the Pennsylvania code in setting up their accounts.

Q. That is the code of accounts as in effect in the State of Pennsylvania for the public utilities for that time?

A. Not now. That was in effect in 1929.

Q. Was it in effect in 1927 and 1928?

A. I wouldn't say.

Q. Was the date 1920? Was that when it was adopted?

A. That was when the code itself became effective.

Mr. Dougherty: I am going to ask you not to answer the questions until I finish them. The reporter can't take both of us down at the same time.

The Trial Examiner: All that system of accounts, that was prescribed by the Pennsylvania Public Utilities Commission?

The Witness: Yes, sir.

By Mr. Dougherty:

Q. That is for Public Utilities in that State?

A. Companies within that state, yes.

Q. Are you able to tell whether or not under that code of accounts these various adjustments for various items which you have found and charged to expense should properly be charged to capital?

A. May I refer to the code?

Q. Yes.

A. On Page 44 of the uniform classification of accounts for natural gas companies effective January 1, 1920, and issued by the Public Service Commission of the Commonwealth of Pennsylvania, in the paragraph under "Betterment," it states:

"Betterments are physical changes in structures or equipment, the object of which is to make the structures or equipment affected more useful or of greater capacity than they were at the time of their original installation or acquisition. The utility shall charge as a betterment to the appropriate sub-account of "101. Fixed capital installed since December 31, 1919" account that portion of the cost of such changes as will, when added to the original cost of the structures or equipment bettered, give the cost of the structures or equipment in their bettered condition."

Q. Under that particular provision which you have just read, is it your opinion that these adjusted items should have been charged to capital instead of expense?

A. I think so, yes. From my experience of long transmission pipe lines I am of the opinion they should have been capitalized and not have been charged under expense.

Q. Is it your opinion that whoever had to do with that in the company was in error in so charging it to expense?

A. I do.

Q. Now, with respect to Item 9 on Statement 2, will you give us the explanation of how those adjustments were arrived at?

A. Taking the net property addition year by year, I increased, or I included in Item 10 rather, six and one-half per cent for corporate engineering and other administrative costs.

Q. Is that 10 or 9?

A. 9. It is Line 9.

I included six and a half per cent for engineering corporate and other administrative costs on all net property additions, year by year and in addition to the six and a half per cent I included one and a half per cent for interest on those net fixed capital additions. The six and a half per cent applies to the item "Expense" which should have been capitalized as shown by Line 8, but the one and a half per cent interest was not computed on the expense item.

Q. What was it computed on?

A. The interest was computed solely on the items of fixed capital added during the year.

Q. And those are the one that are shown against Items 1 to 6?

A. That is right. They are incorporated in the total amounts shown by Item 1 to 6 inclusive.

Q. Were those interest items charged on the company's books?

A. No, sir.

Q. Why did you include them in this statement?

A. The Federal Power Commission code of accounts allows a nominal or reasonable amount, as they put it, of interest to be added to fixed capital when paid out of the company's own funds.

Q. Well, is that interest during construction?

A. As interest during construction.

Q. Are the computations you made in accordance with the provision of the Federal Power Commission code?

A. That is what I followed.

Q. I am speaking now with respect to the interest.

A. Yes, sir.

The Trial Examiner: The practice of the company during these years was to add interest during construction?

The Witness: No, sir, neither company had added interest during construction since the days of the initial construction period in 1928 regardless of the amount of additions and betterments they have put in.

(Vol. IX, pp. 1275-1281.)

Q. When did you first discover that some of these items had been expensed which should have been capitalized?

A. I was going through the maintenance item.

Q. What day?

A. What day?

Q. Yes.

A. Well, I commenced that particular job about—it was in the latter part of last year sometime or early this year.

Q. That is the first time that Ford, Bacon & Davis, Inc. had ever looked at its accounts, is that right?

A. Yes, sir. I can safely say that that is the first time Ford, Bacon & Davis, Inc., has seen those accounts since the initial construction.

Q. In making these adjustments in regard to these expenses, you say—did you take into consideration the Federal Power Commission uniform system of accounts?

A. I think I can say I followed that.

Q. What item did you follow?

A. Do you mind if I quote it, Mr. March?

Q. I would be glad to have you quote it.

A. It is the Federal Power Communications uniform system of accounts.

The Trial Examiner: For natural gas companies?

The Witness: Yes.

By Mr. March:

Q. Will you please refer to the page number? It is Page 49, Article 12. It states:

“Additions and retirements of gas plant.” It is subdivision (3) under Provision B. It states:

“When a minor item of depreciable property is replaced—”

Mr. Lange: Mr. Lusk, is that from the tentative draft or is that of the final draft?

The Witness: No, sir, it is effective January 1, 1940, entitled "Federal Power Commission—Uniform System of Accounts—Natural Gas Company—Effective January 1, 1940."

By Mr. March:

Q. That is your gospel insofar as these adjustments you have made are concerned?

A. I think so. I think I can recall the quotation from Page 49 as I just mentioned it, and the Pennsylvania code was following, and I think I am on reasonably solid ground when I replaced these items.

Q. Read it.

A. Continuing to read it—

Q. Certainly. Read it.

A. "When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate gas plant account."

Q. Does that say maintenance, cathodic protection, washout expense, protection against erosion shall be capitalized and not expensed?

A. When you mentioned maintenance expense, that was the account to which any of those items were charged but cathodic protection is definitely a betterment of a pipe line in that it arrests corrosion.

Washout control is definitely a betterment of a pipe line because it prevents the erosion of land and the consequent washing out and floating of a particular pipe line. Rock-weighting of the line is definitely a betterment because it also tends to lessen the effect of a washout.

Q. It is also a preventive, isn't it?

A. They are all preventive measures.

Q. I thought you said they were corrective—

A. I didn't say that. I said that they are preventive measures and not corrective measures. The definition of preventive measures are capital but corrective measures are properly expense.

Q. You would say that the quotations you have just read requires you to place such expense in the capital account?

A. I should think so, yes. I wouldn't say it would place such expense items—I would say it would place such expenditures for that particular work in capital.

Q. You don't really think that says that, do you? You just construe it to read that, don't you?

A. No, it says that right here (indicating.)

Q. By the way—

A. There certainly can be no misunderstanding if the use of the words "except that if the replacement effects a substantial betterment—" is considered. It is not a replacement but something that does effect a substantial betterment—

Q. Rock-weighting of a line is frequently a replacement?

A. It is frequently a replacement.

Q. Frequently a replacement?

A. When it is washed out.

Q. You have the washout included?

A. They aren't rock-weighted when the washouts occur.

Q. Did you have washouts after the line was rock-weighted?

A. There might be washouts after that occurred.

Q. That should have been expense, shouldn't it?

A. It should have been expense, and the chances are when I looked through the maintenance items when I saw anything that had the slightest inkling of replacements I did not include it in this particular computation.

Q. Where did you include it?

A. I left it in expense.

Q. Just how is it when you went through all of these vouchers you found a great many items which were expensed that should have been capitalized and did not find any items capitalized that should have been expensed?

A. I don't know as that is very difficult to define. Items that are capitalized that should have been expensed are because the chances are 99-to-1 that the companies are using the reverse process.

Q. Why would they?

A. In expenses, instead of capitalizing?

Q. Yes, why is that?

A. In the first place, if it is a border line of expense, why it is expensed.

Q. You didn't find items which were capitalized that should have been expensed, is that right?

A. I went through the expensed items—I can anticipate what you are driving at, Mr. March—for the years 1938 and 1939—you mean the write-off of certain items of fixed capital charged to expense?

Q. I mean just exactly what I asked.

A. A few items I found, yes.

Q. Did you put them over—

A. That may be the subject of another exhibit. It has no bearing on this.

Q. Did you or did you not?

A. Yes, I found items there.

Q. Did you put them over into the capital account?

A. I took them out of the expense account.

Q. Did you find anything that you took out of the capital account and put in the expense account?

A. No.

Q. These companies naturally would put all they could in the expense account, is that right?

A. Oh, I don't know. They could use their—

Q. Wouldn't it cut down on the income tax?

A. It might if the income tax examiner didn't catch it.

Q. It would?

A. But it would only be a stop gap. The Internal Revenue man would come along and they would have to replace it; pay the deficiency plus interest.

Q. Do you think that should be done here for all of this as improper expense, some \$400,000, and you should be paying income tax on—

A. If you asked me to do it I would say yes.

Q. Do you think the whole procedure was improper and that they should have been in the capital accounts to begin with?

A. I don't think the use of the word "improper" is appropriate. I would say that it was just a slight error on the part of the clerks that handle the particular—

Q. How much do you figure this slight error meant in dollars and cents as far as income tax was concerned?

A. In 1939 the income tax on \$17,000 wouldn't have been very much for the tax itself.

Q. I am talking not about \$17,000, but \$284,000.

A. Mr. March—

Q. To be exact, \$255,000—

A. That is accumulative to—

Q. Yes.

A. You have to pick out the individual years if you are talking about income tax. You can't pyramid these figures for tax—

Q. But you can do it for rate purposes?

A. They are accumulative. Part of them are pyramided year by year. They are entitled to be in there for accumulative value or accumulative dollars.

Q. I presume you have read the Federal Power Commission Uniform System of Accounts in toto?

A. Oh, yes.

Q. Did you read Page 37?

A. Yes.

Q. I will read, beginning with B on Page 36. It states:

"B. The cost to the utility of its gas plant shall be ascertained by analysis of the utilities records. In ascertaining the cost it is not intended that any correction need be made for depreciation, depletion, or amortization applicable to operating units or systems previously acquired, whether or not such depreciation, depletion, or amortization was recorded in the books of the accounting utility. It is likewise not intended that adjustments shall be made to record in gas plant accounts amounts previously charged to operating expenses in accordance with the uniform system of accounts in effect at the time or in accordance with the discretion of management as exercised under such uniform system of accounts."

A. Yes, I am familiar with that.

Q. I thought you said you abided by the Uniform System of Accounts?

A. I did. They don't tell you not to do it. They express the intent.

Q. They expressly say that it is likewise not intended that the adjustment shall be made to record in gas plant accounts—

A. They don't tell you it can't be done.

Q. They tell you they don't want you to do it, don't they?

A. That is right. If I told you I wanted you to jump off the roof you wouldn't have to do it. (Laughter.)

Furthermore, Mr. March—

Q. If you are stating here that you are abiding by the Uniform System of Accounts as Promulgated by the Federal Power Commission in changing these items of expense to capital accounts, you are making an erroneous statement, aren't you?

A. No, I am not. Page 49 specifically states "betterment." That is one support for it. The Pennsylvania code of 1920 is another support for it.

Q. Yes, but you know and I know, and we all know, that according to this language that it absolutely says that such shall not be done after the accounts have been set up for a good many years, don't you?

A. I don't look at it that way. If the Federal Power Commission wanted it that way, they would have placed much stronger language on it than saying, "intended."

Q. What would they have said?

A. They would have said, "It is definitely out."

Q. What if they had said, "It is definitely out"? What would you have done?

A. I would probably have left them out.

Q. You probably would have left them out?

A. Yes. I would have to think a long while before I would leave them out.

Q. You don't like to abide by the intention of the Federal Power Commission Uniform System of Accounts, do you? You want them to knock you over the head with it, don't you?

A. No, whatever the word "intent" is, I don't pay much attention to it.

Q. You can do as you want to?

A. Do as I want to.

Q. Do you want to modify your statement to this effect: That you did not abide by the Federal Power Commission's Uniform System of Accounts when you changed from expense to capital accounts these items in all cases where the Federal Power Commission and the uniform system of accounts said or used the term "intended"?

A. No, I think my answer will stand because I am on safe ground on Page 49.

Q. Don't you think that Page 37 has to be read with Page 49?

A. There is still a great deal of confusion as to the interpretation of Page 37 and 49.

Q. Doesn't this language on Page 37 describe just exactly what you have done?

A. That is all right, and in the continuity Page 59 contradicts it somewhat then.

The Trial Examiner: Page 59 or 49?

The Witness: Page 49. Excuse me.

By Mr. March:

Q. You don't know whether it contradicts it or not?

A. I think it does. My interpretation of the language on both pages and on both sections—

Q. Who made that determination with you?

A. Nobody did. That is my own determination.

Q. Are you familiar with the Rules and Regulations of the Federal Power Commission and decisions of the Federal Power Commission construing this Uniform System of Accounts?

A. No, sir. I have read the Natural Gas Act and have gone through this particular Uniform System of Accounts, effective January 1, 1940, and I stopped there.

Q. What is the effect—so therefore you are not familiar with these interpretations of this Uniform System of Accounts?—

A. Not unless—

Q. —of the Federal Power Commission?

A. Have you finished the question?

Q. Yes.

A. Please read that question.

(The question referred to was read by the reporter, as set forth above.)

The Witness: Not unless included in the Federal Power Commission's Uniform System of Accounts effective January 1, 1940—

(Vol. IX, pp. 1299-1310.)

Q. I will ask the witness if he is familiar with this when I get through.

It is on Page 9. It states:

"Instruction 2-B, Utility Plant Accounts is as follows:

"It is likewise not intended that adjustment shall be made to record in utility plant accounts amounts previously charged to operating expenses in accordance with the uniform system of accounts in effect at the time or in accordance with the discretion of the management as exercised under such uniform system of accounts."

"Restatement of costs based upon revised allocations of joint expenses, (expenses applicable to construction and operations) cannot be permitted. Two self-serving, self-impeachments must be guarded against: 'Our records are in such bad shape that we cannot determine the cost of our property from our books and records' and 'we have not in the past properly distinguished between construction and operations and construction and maintenance'."

It states further: "The sentence of instruction 2-B quoted above sets forth the principle underlying the accounting reclassification required of utilities by the system of accounts. The intent of the reclassification is to reclassify the dollars in the plant account as of the effective date of the system of accounts to the new accounts."

I will end the paragraph here to make it complete.

It states: "The process is a reclassification and not a reaccounting. The utilities are required under the system of accounts to reclassify the dollars in their plant accounts as of the effective date thereof, and not to compute a hypothetical original cost of property constructed by them."

I will ask you if you have read that statement?

A. No, sir, I haven't.

I might add that you say that is from the National Association of Railroad and Utility Commissioners?

(Vol. IX, pp. 1312-1313.)

Q. Did you take into consideration all of the State Com-

mission's procedures when you determined to put these items in the capital account?

A. I think I am perfectly justified in placing those items in the capital account based upon the Code of Accounts followed by the company, and it is further supported by Page 49 of the Federal Power Commission Code of Accounts effective January 1, 1940. I think I am perfectly sound—

Q. And on Page 37—

A. Page 37, I think, is a contradictory statement and it doesn't say it should not be done. It says that it is the intention—the intention is thus and so, but it doesn't say just what you should exclude or what you should include.

Q. If this was in an expense account, how would the company get their money back out of this expense?

A. How would the company get its money back out of this expense?

Q. Yes.

A. Well, reverting to the company, it flows to the company through the gas rate, for the sale of gas—

Q. Would this be a profit—would this be in the profit and loss?

A. That expense item is in the profit and loss now and has been—if they treated it as an expense item—

Q. They have already made their money out of it once?

A. That is right.

Q. And you want them to make the money out of it again?

A. I didn't say that.

Q. What are you going to do—

A. I wouldn't say they made money out of the particular item.

Q. You don't?

A. I don't know. No one else knows if they have received a fair return.

Q. No one knows if he has received a fair return?

A. No.

Q. You don't know whether they have enjoyed a return at all, is that right?

A. No.

Q. You haven't made sufficient examination of the books, records, and accounts of this company to ascertain it?

A. I have made sufficient examinations from that view—

point, but I am speaking now of sufficient return on the value of the property.

Q. Oh, yes.

What return would you allow them on the value of the property?

(Vol. IX, pp. 1315-1316.)

Q. Mr. Lusk, I refer you back to Statement 2 of Exhibit 67.

A. Yes, sir.

Q. I refer you specifically to these items which you have charged to the capital account which was formerly expense.

A. Yes, sir.

Q. Did you see the vouchers in regard to those items?

A. Yes, sir. I reviewed and inspected every voucher.

Q. The tickets?

A. No, not all the tickets.

Q. Did you try to read any of those tickets?

A. Sir?

Q. Did you try to read any of those tickets?

A. I had quite a difficult time in reading some of them.

Q. You can't tell just exactly what services were performed by reason of the tickets, could you?

A. I think we can, yes, sir.

Q. You can't read them, can you?

A. Read them?

Q. You can't read them, can you?

A. I said that I had a little difficulty in reading some of them.

Q. Could you read all of them?

A. Practically all of them except the few I had the difficulty with reading.

Q. Just how did you have difficulty in reading those few? In what respect was it?

A. In many respects the time charged was not very clear. The item of maintenance was not very clear. I believe I mentioned yesterday in my testimony where there was any doubt in regard to the words "replacement" or "repair"—where they appeared in any of those tickets I didn't consider them.

Q. In other words, you didn't consider that there was any doubt at all?

A. No, I don't believe I did.

Q. And you didn't attempt to read all those tickets yourself?

A. No, sir.

Q. It would be impossible?

A. It would be a physical impossibility for one man to read the thousands of labor tickets.

Q. What were your instructions to your subordinates in regard to that?

A. My instructions to my subordinates were to take off from the time tickets every item that read particularly cathodic protection, if any, rock-weighting the main line, hauling shale for the main line, building of bridges, and revetments, and rip rapping on the main line, and all such items that appear to make up Item 8.

Q. And if there was any doubt in their minds as to just what the ticket did say in that regard they were to ignore it?

A. No, they brought the questions to me and I made the decision.

Q. You made the decision?

A. Yes, sir.

Q. Were large sums involved in those decisions?

A. I would say there was a substantial sum—if I took every time ticket it would be substantially in excess of the amount shown here (indicating Exhibit No. 67.)

Q. What do you mean, if you had that noted?

A. If I just simply adopted the policy of taking every time ticket that had something on it that I or someone particularly — particularly myself — that should be capital and include it in this, it would be substantially in excess of that amount.

Q. How much in excess?

A. I haven't any idea.

Q. You were trying to make this figure as small as possible?

A. No, sir, I was pursuing a definite line.

Q. All right.

Now I want you to refer back to Items 1 to Item 6 on Statement 2. You distributed there, I believe, \$295,000 of undistributed items to these functional groups?

A. That is right.

Q. Well, weren't some of the functional groups already retired?

A. If they were—

Q. Answer the question directly.

A. Yes, they were in small parts, yes, sir.

Q. What did you do in a case like that?

A. There was no change made in that particular item for the small portion of property retired.

Q. In other words, you are going to let the rate payers pay twice for that?

A. No, I wouldn't say that, because down in Line 9 where I make the adjustment for general construction costs applicable to net property additions and capital items expensed, that item is taken care of. The general cost is distributed on the net, not on the gross.

Q. How much does this amount to? How much in dollars and cents, these function units that have been retired?

A. I couldn't tell you offhand, Mr. March.

Q. Can you get that information for us?

A. I can look it up, yes.

(Vol. X, pp. 1342-1346.)

The Trial Examiner: Mr. Lusk, will you turn to Statement 2 of Exhibit No. 67 for identification?

The Witness: Yes, sir.

The Trial Examiner: On Line 9 you show certain amounts under the caption "Adjustment for General Construction Costs Applicable to Net Property Additions and Capital Items Expensed." That is an accumulative figure up to \$155,244 that accumulated each year?

The Witness: Yes, sir.

The Trial Examiner: Mr. Lusk, are you referring there to administrative overhead?

The Witness: Yes, sir.

The Trial Examiner: Is there a provision in the Pennsylvania Code that you had here yesterday that provides for the charging or the allocation of proportionate amounts of administrative expense to capital?

The Witness: In the Pennsylvania Code there is a provision for general administrative expense to be capitalized. It doesn't say that under the specific accounts that portions

shall be distributed to the individual accounts but there is under the Pennsylvania Code a capital account for undistributed or general construction cost.

The Trial Examiner: I wonder if you would turn to that and read it for the record?

The Witness: Yes, sir.

On Page 48 of the Pennsylvania Code of Accounts, dated or effective January 1, 1920, and continuing on Page 49, Page 48 being under the general heading "Undistributed Fixed Capital Accounts."

Account 200 is Organization; Account 201 is Franchises; Account 202, Patent Rights and Licenses; and Account 203 is Other Undistributed Fixed Capital.

Account 203 states: "Charge to this account the cost of all other undistributed fixed capital not provided for elsewhere.

"The record supporting the entries to this account shall be so kept that the utility can furnish information as to the kind of each item of fixed capital charged to this account, the principal from whom it was acquired and the agents who represented him; also the term of the life of each item, or if it is not known an estimate thereof and the facts upon which such estimate was based."

Account 203 is an overall account. In the accounts of the Colorado Interstate Gas Company they have an account 203 Other Undistributed Fixed Capital.

The Trial Examiner: Is that the only specific provision in that system of accounts for the allocation of administrative overhead?

The Witness: No, sir. On Page 59 under "Undistributed Construction Expenditure Accounts" there are the following:

Account 258, Engineering and Superintendence during construction; Account 259, General Officers' and Clerks' Salaries during construction; Account 260, General Officers' and Clerks' Expenses during construction; Account No. 261, Office Supplies and Expenses during construction; Account 262, Law Expenditures during construction; Account 263,

Injuries and Damages during construction; Account 264, Insurance During Construction; Account 265, Taxes during construction; Account 266 Interest during construction; and Account 267, Other Expenditures during construction.

They are all provided in the capital accounts of the Pennsylvania Code of 1920.

The Trial Examiner: Are they somewhat similar to the present provisions of the Uniform System of Accounts prescribed by the Federal Power Commission?

The Witness: Yes, sir.

The Trial Examiner: Do they vary to any great extent?

The Witness: I couldn't say so. I haven't made a great comparison, but generally they are the same.

The Trial Examiner: Item 12 on Statement 1 was reached in the same identical manner, was it not, with the exception of the interest rate?

The Witness: No, sir. In the case of the Canadian River Gas Company I added three and a half per cent allowance; in the case of the Interstate Gas Company I added a six and a half per cent allowance.

The Trial Examiner: Did you add a three and a half per cent allowance for administrative expenses alone in the case of the Canadian River?

The Witness: In the case of the Canadian River.

The Trial Examiner: And what appears for Colorado Interstate?

The Witness: One per cent for interest.

The Trial Examiner: And to Colorado Interstate you used six and a half per cent which included one and a half per cent interest—

The Witness: No, exclusive of the one and a half. One and a half and six and a half.

The Trial Examiner: I am reading from Page 1280 of yesterday's record. It—did you not testify here—"I included six and a half per cent for engineering corporate and other administrative costs on all net property additions—"—I see there what you mean.

The Witness: Yes.

(Vol. X, pp. 1355-1359.)

Q. Mr. Lusk, there was considerable discussion yesterday of the principle followed by you and what you did in connection with the adjustments made of items that had previously been charged to expense and which in your compilation of the original costs, as shown in Exhibit No. 67, you capitalized. Reference was made to a provision of the newly adopted Uniform System of Accounts for natural gas companies by the Federal Power Commission and which became effective January 1, 1940. On Page 37, which is under Section 2, bearing the heading "Classification of Gas Plant the Effective Date of System of Accounts," there is a Paragraph B that deals with the matter of setting up the accounts in accordance with this new classification. Do you understand that the accounts of the Natural Gas Companies that are subject to the Natural Gas Act are expected to be reclassified in accordance with the provisions of this adopted code of accounts?

A. Yes, sir.

Q. And the account numbers as contained herein would be assigned on the books?

A. Yes, sir.

Q. Now, in the first sentence it says: "The cost to the utility of this gas plant shall be ascertained by analysis of the utility's records," and that ends that sentence.

Did you analyze the records of both Canadian River and Colorado Interstate Gas Company in making your statement of original costs?

A. Yes, sir.

Q. Now, the second sentence deals with depreciation and amortization. Was there any question respecting any of those items dealt with in this exhibit?

A. No, sir.

Q. Now, the third sentence which attention was called to reads this way:

"It is likewise not intended that adjustments shall be made regarding gas plant accounts, amounts previously charged to operating expenses in accordance with the uniform system of accounts in effect at the time or in accord-

ance with the discretion of the management exercised under such uniform system of accounts."

That ends the quotation.

Now I want to discuss the problem with you under the assumption that that is *manitory* in the sense that it says that no adjustment will be made in making this reclassification to record in the gas plant accounts the amounts previously charged to operating expenses that are stated here. What is your understanding as to whether that would mean that under no circumstances are any adjustments to be made of interest that at one time had been put into the expense account?

A. It is my understanding that the Federal Power Commission there doesn't prohibit the replacement of items previously charged to expenses.

Q. That's what I'm getting at. It doesn't make a blanket prohibition against—

Mr. March: I object to that. It's a legal question, a legal determination and the witness construing this uniform system of accounts from a legal standpoint is improper.

The Trial Examiner: Well, from the standpoint of legal construction I think perhaps that's right. The Examiner is rather interested, Mr. March, in Mr. Lusk's interpretation of the system of accounts. Mr. Lusk is an expert accountant.

By Mr. Dougherty:

Q. Now, it further reads that the adjustments that are not to be made are these:

"Those amounts previously charged to operating expenses in accordance with the uniform system of accounts in effect at the time."

Now, I'll ask you if—assuming that certain charges had been made to expense that were directly contrary to the provisions of some uniform system of accounting—it is your interpretation or understanding of this provision that no adjustments are to be made where such charges had been made directly contrary to such systems.

A. My interpretation of that provision is that where a

company operating under a code of accounts like the Colorado Interstate Gas Company and the Canadian River Gas Company under the old Pennsylvania Code, that they would be perfectly justified in reversing those expense items because under that particular Pennsylvania Code the items that were expensed in my opinion were accounting errors.

Q. Well, now, I want to get you—I am asking you these questions as to interpretation without direct reference as to what you did, as yet, Mr. Lusk, and I want to put a hypothetical question to you and—first, I'll ask you this:

Does the Pennsylvania Code of Accounts contain any accounts under their gas plant group for compressors?

A. Yes, sir.

Q. And where does that Code of Accounts provide that compressors shall be charged?

A. Fixed capital.

Q. Will you give us what account number that is?

A. I am reading from Statement 2 of Exhibit 67, "Compressing Stations; Accounts 218 — land; 219 — leaseholds; 221 — Structures; 223 — Structures; 224 — Equipment; 227 — Equipment."

They are the Codes of Accounts listed under the Pennsylvania Code and which the Colorado Interstate Gas Company and the Canadian followed.

Q. Now, let's assume that all of the compressor stations and property of the Colorado Interstate Gas Company had been expensed on the books; that is, charged to operating expenses rather than charged into capital in the various years in which these expenditures were made.

Would it be your opinion that entries so made were contrary to the provisions of the Pennsylvania Code?

A. They most decidedly would be.

Q. And in making a re-classification or re-statement of gas companies' accounts in accordance with the Federal Power Commission Code, would it be your understanding that you should make those adjustments and take those items out of expense and put them into the proper capital account item?

A. Yes, sir.

Q. Now, you used the term yesterday at different times of, I think, "Border Line Items," or cases?

A. I did.

Q. In those cases in which some discretion of management could be exercised as to whether they would go on one side or the other; that is, either into expense or capital?

A. I think that is the proper term, yes, sir.

Q. Now, the items that you did actually investigate and the adjustments which you have made, state whether or not in your opinion, when made, were they or were they not contrary to the rules provided in the Pennsylvania Code of Accounts which this company was then following?

A. I think they were a direct violation of the specific following of the Pennsylvania Code of Accounts, the Code of Accounts that both companies use now and have been using since 1928.

Q. And you put those in the same general class as the illustration I mention; that is, compressor stations?

A. Yes, sir.

Mr. Dougherty: I think that is all.

Mr. March: I have a few other questions here.

The Trial Examiner: Mr. March, may I ask a question just before you get to it?

Mr. March: Yes, sir.

The Trial Examiner: Mr. Eusk, this matter of charging these large items such as your cathodic improvement or treatment of the lines, rather, and your rock-weighting and rip rapping, would you say that was a border-line incidence?

The Witness: No, sir, decidedly not.

The Trial Examiner: Wherein discretion would be exercised by the accounting officers?

The Witness: No, sir.

The Trial Examiner: Wouldn't those charges conform to established policy of the company?

The Witness: No, sir. Those particular items are strictly betterment items to improve the pipe line.

The Trial Examiner: What I mean, though, the initial charges were made to operating expense?

The Witness: That's right.

The Trial Examiner: And not to capital outlay?

The Witness: That's correct.

The Trial Examiner: Well, that is an item of rather major importance, is it not, wherein it would be rather difficult to make an accounting error in the entrance of those items on the books of the company?

The Witness: Well, the way those particular accounts were handled, if the Pennsylvania Code were strictly followed, they should be capital.

The Trial Examiner: Your Pennsylvania Code lays down certain general rules, does it not, and then beyond those rules as an accounting matter you have a wide area of discretion; isn't that true?

The Witness: That's true.

The Trial Examiner: And the fact that these items were directly charged to operating expense wouldn't necessarily conflict with your Pennsylvania Code, would it?

The Witness: I think they would, yes, sir.

The Trial Examiner: Mr. March, you may proceed.

Recross Examination.

By Mr. March:

Q. So you have set up the accounts of the Canadian River Gas Company and the Colorado Interstate Gas Company in compliance with the uniform system of accounts of the Federal Power Commission?

A. No, I haven't.

Q. They have never been set up in compliance with the uniform system of accounts of the Federal Power Commission, have they?

A. That's quite right. They have not.

Q. Why haven't they?

A. Well, I couldn't answer that question. That's a legal matter.

Q. You just got busy and set up a few of them here for this rate case in this exhibit, is that right?

A. No, I wouldn't say that. In fact, I don't do anything piecemeal. I go the whole way.

Q. And your company has made no attempt to set up its accounts according to the uniform system of accounts of the Federal Power Commission?

A. They may have in some of the other exhibits that may be presented later.

Q. I'm talking about the company as a whole, the accounts of the two companies.

A. They haven't set those accounts up in accordance with the Federal Power Commission uniform system of accounts as yet.

Q. In the preparation of this exhibit you decided that it would be a nice thing if you could put this \$400,000 from expenses into capital accounts under the guise of compliance with the uniform system of accounts of the Federal Power Commission, is that it?

A. No, sir. I strictly followed the Pennsylvania Code, which they are operating under now.

Q. Why do you refer here so much to the Federal Power Commission?

A. I didn't.

Mr. Dougherty: He didn't. I did.

By Mr. March:

Q. Yes, but you quote with a great deal of glee from the Code of the Federal Power Commission as requiring that and you give that as a reason for your so changing it from expense to capital structure.

A. That isn't the reason. The reason is the Pennsylvania Code.

Q. Oh, the Pennsylvania Code was changed, is that right?

A. No, sir; No, sir, but the items that are capitalized are charged to expense in the Pennsylvania Code.

Q. They have changed the Pennsylvania Code recently, haven't they?

A. Recently, yes.

Q. And it corresponds very close to the Federal Power Commission, doesn't it?

A. I understand it does.

Q. However, this wasn't in conflict with the Pennsylvania Code until the change was made?

A. That's right.

Q. Do you know when they changed the code—I mean the uniform system of accounts?

A. No, I don't recall.

Q. Have you ever seen the uniform system of accounts of the Pennsylvania Code now in effect?

A. No, I don't think I have.

Q. How do you know they changed, then?

A. I know the State of Pennsylvania and West Virginia have adopted a new code similar to the one that has been issued by the Federal Power Commission.

(Vol. X, pp. 1366-1376.)

As to the cost of necessary additions to Colorado Interstate's portion of the Denver Line, 1940 to 1947 inclusive, as estimated, the company introduced Exhibit 133 by its witness Lusk. This exhibit also included cost of additions to Canadian River's portion of the line, which is dealt with in its brief. In this Exhibit 133, the witness Lusk priced out and totaled up the cost of such necessary additional facilities based on estimates furnished him either by the engineer Rhodes, or Hendee, general manager (Vol. XXXIII, p. 4253 to 4285). The costs of the added facilities were largely based on actual cost of the Dalhart Compressor Station completed in 1940 (Vol. VIII, p. 1084), and on estimates furnished by Mr. R. W. Hendee, general manager (Vol. XXXIII, pp. 4255, 4256). Lusk stated that: "Other than for changes made necessary by the required new facilities, there were no allowances for the cost of incidental facilities, commonly provided in the development of a property." (Exhibit 133, p. 1). His exhibit sets forth the cost of the estimated necessary additional facilities by or in accordance with the estimate as to when they would be required. The total amount of such additions through 1947, he summarized as follows: Extension to Canyon Compressor Station, \$73,472; extension to Devine Compressor Station, \$75,000; new Colorado Springs Compressor Station, \$177,590. These three items added to its original cost at December 31, 1939 of \$12,081,142 would result in an original cost of the physical properties of Colorado Interstate's portion of the Denver Line at December 31, 1947 of \$12,407,204. Ex. 133.

Line No.	Particulars	1940		1939		Increase or Decrease
		Amount	per sq ft	Amount	per sq ft	Amount
	(1)	(2)	(3)	(4)	(5)	(6)
1	Net Proceeds for lease (at 16.44 lbs. per square inch alcohol)	26,114.07		26,000.44		113.63
2	Operating revenue	64,209,662.08	16.12	64,005,609.44	16.11	104,056.58
3	Operating revenue deductions					
4	Gas purchased for resale	81,305,200.72	5.30	81,312,690.28	5.05	\$ 72,790.44
5	Operating expenses (Schedule No. 2)	331,292.23	1.27	313,754.19	1.21	17,538.04
6	Depreciation	322,516.29	1.24	322,624.33	1.24	61.04
7	Amortization	94,082.46	.34	94,692.42	.34	610.96
8	Taxes	681,577.46	2.51	669,926.67	2.40	212,650.79
9	Total operating revenue deductions	82,315,215.50	10.30	82,315,215.50	9.38	1,000,000.00
10	Net utility income	11,250,242.52	5.38	11,250,242.52	5.75	(199,882.50)
11	Other income:					
12	Interest	339,105.45	1.30	334,567.72	1.36	\$ 4,537.73
13	Miscellaneous	926.28	.00	513.43	.00	412.85
14	Total other income	340,031.73	1.30	335,081.15	1.36	4,950.58
15	Gross income	1,170,344.35	5.38	1,186,165.70	5.09	(15,821.35)
16	Income deductions:					
17	Interest on long-term debt	218,882.09	.84	250,204.24	.96	\$ (31,322.15)
18	Other income taxes	15,119.57	.05	1,413.05	.01	13,706.52
19	Other interest charges	(5,940.00)	(.02)	1,754.02	.01	(1,794.02)
20	Profits and loss on bonds redeemed and sold			9,992.50	.04	(9,992.50)
21	Miscellaneous	25.30	.00			25.30
22	Total income deductions	239,866.96	.87	262,363.79	1.01	\$ (22,496.83)
23	Net income	11,502,447.53	5.73	11,281,524.21	6.00	\$ (219,076.68)
24	Grand Surplus					
25	Balance at beginning of period	1940		1939		
26	Credits to surplus	27,537,424.12		27,657,654.36		
27	Net income, nine months ended Sept. 30, as above	1,502,447.53		1,581,502.91		
28	Net income, three months ended Dec. 31			446,669.65		
29	Miscellaneous direct items (net), nine months ended Sept. 30	473.57		8,241.26		
30	Total	28,040,345.22		29,693,468.18		
31	Debits to surplus					
32	Dividends on common stock:					
33	Nine months ended Sept. 30	957,500.00		625,000.00		
34	Three months ended Dec. 31			1,250,000.00		
35	Dividends on preferred stock	120,000.00		120,000.00		
36	Balance at end of period	22,962,845.22		27,698,468.18		

Note: The only reclassifications applied to the net income, per books, for the nine months ended September 30, 1940 and 1939, affect rate base expenses as explained in Entry No. 2, Schedule No. 3.

Exhibit No. 173

Docket 9-124

Schedule No. 2
Sheet 1 of 3

COLORADO INTERSTATE GAS COMPANY
STATEMENT OF OPERATING EXPENSES, AS RECLASSIFIED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1940 AND 1939, AND COMPARISON

2

Line No.	Particulars	Nine Months Ended		Increase or (Decrease)
		September 30, 1940	September 30, 1939	
	(1)	(2)	(3)	(4)
Transmission Expenses				
Operation				
1	Transmission system supervision	\$ 8,398.90	\$ 8,783.65	\$ (384.75)
2	Operation of transmission lines			
3	Labor	23,662.00	21,263.20	2,398.80
3	Supplies and expenses	5,443.55	4,642.03	801.52
	Other			
4	Labor	3,856.46	4,511.51	(655.05)
5	Supplies and expenses	3,411.13	4,713.97	(1,302.84)
6	Stores labor, supplies and expenses	1,218.84	2,486.44	(1,267.60)
7	Undistributed auto expenses	4,917.05	1,794.15	3,122.90
Compressing system				
8	Supervision	9,534.89	10,651.36	(1,116.47)
	Operation of compressing stations			
9	Labor	33,565.14	36,847.53	(3,282.39)
10	Supplies and expenses	18,690.42	14,378.40	4,312.02
	Other			
11	Labor	11,589.72	11,050.25	539.47
12	Supplies and expenses	3,196.45	2,647.92	548.53
13	Undistributed auto expenses	1,467.55	2,275.49	(807.94)
14	Total operation	\$128,852.10	\$126,045.68	\$ 2,806.42
Maintenance				
Transmission system				
15	Line equipment	\$ 30,647.64	\$ 11,851.39	\$18,796.25
16	Other structures	984.71	1,078.77	(94.06)
17	Other equipment	14,997.44	39,976.56	(24,979.12)
Compressing system				
18	Structures	1,038.69	1,100.23	(61.54)
19	Equipment	26,217.14	16,965.54	9,251.60
20	Other structures	1,499.60	1,971.21	(471.61)
21	Other equipment	2,320.91	1,669.13	651.78
22	Total maintenance	\$77,706.13	\$74,612.88	\$ 3,093.25
23	Total transmission expenses	\$206,558.23	\$200,658.56	\$ 5,899.67
Distribution Expenses				
Operation				
24	Office expenses			
24	Salaries	\$ 9,025.70	\$ 7,962.90	\$ 1,062.80
25	Stationery and printing	346.67	112.90	233.77
26	Other supplies and expenses	188.02	42.62	145.40
	Operation of field measuring stations			
27	Labor	16,324.09	19,716.70	(3,392.61)
28	Supplies and expenses	3,822.66	3,694.19	128.47
29	Undistributed auto expenses	2,776.11	2,748.05	27.06
30	Total operation	\$22,922.86	\$26,159.14	\$ (3,236.28)

1403

Exhibit No. 173

Schedule No. 2
Sheet 3 of 3

Docket G-124

COLORADO INTERSTATE GAS COMPANY
STATEMENT OF OPERATING EXPENSES, AS RECLASSIFIED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1940 AND 1939 AND COMPARISON

Line No.	Particulars	Nine Months Ended September 30		Increase or (Decrease)
		1940 (2)	1939 (3)	
	(1)			(4)
	<u>General and Administrative Expenses (Cont'd)</u>			
	<u>Maintenance</u>			
61	Telephone system	\$ 512.31	\$ 999.15	\$ (486.84)
62	Office and other general equipment	126.38	209.27	(82.89)
63	Total maintenance	<u>638.69</u>	<u>1,208.42</u>	<u>(569.73)</u>
64	Total general and administrative expenses	<u>\$77,091.40</u>	<u>\$74,825.68</u>	<u>\$2,265.72</u>
65	Total operating expenses	<u>\$331,892.23</u>	<u>\$313,341.19</u>	<u>\$18,551.04</u>

Note: The entries which have been reflected in the above statement of operating expenses for the nine months ended September 30, 1940 and 1939 are shown in Schedule No. 3.

Operating expenses		\$ 160.05	\$ 3,584.30
Operating expenses - miscellaneous general expenses (Colorado Springs office)		\$ 160.05	\$ 3,584.30
Surplus - 1979			\$ 3,584.30

To rectify to normal operating expenses the regular time of regular employees carried on the private pay roll which was charged to work orders 345 (valuation report) and 351 (physical inspection of pipe line). The following accounts charged by this country are those which it appears would have been charged, based upon the time distribution of each employee, had the rate investigation not been in progress:

The charges during 1999 to work orders 346 and 351 were closed to expense in December 1999. The charges to these two work orders during 1940 were closed to expense monthly.

Deferred debits (Deferred Rate Case Expenses)
Operating expenses* (detailed below)
Surplus - 1939

To reclassify the following operating expenses to deferred rate case expenses:

	1940	1941	1942	Three Months Ended December 31, 1942
Miscellaneous general expenses				
New York Office	\$ 3,161.80			\$51,797.21
Colorado Springs Office	43,686.12			3,184.95
Special legal services	9,377.80	\$ 3,197.21		
Post	(4.83)	88.83		22.00
Totals	\$56,226.55	\$ 3,286.04		\$55,004.16

Valuation report and physical inspection of pipe line system
by Ford, Ream & Davis, Inc.

Company work

Gross pay roll charges
Lines, amounts reclassified to operating expenses (note 1)
Net pay roll charges
Employees' expenses
Auto expenses
Miscellaneous
Ford, Ream & Davis, Inc. work (note 2)
General consultation with reference to rate case
Miscellaneous reports and statements
Determination of reproduction cost new of property
Inspection of pipe transmission lines

Legal services and expenses (all paid to Smith, Break, Livelt & Campbell)
Services re case of City and County of Denver vs. Canadian River Gas Company, et al., Docket 0-118 and matter of Canadian River Gas Company, Docket 0-124. (1939 vouchers M-22 and M-18; 1940 vouchers M-26, M-28 and J1-40, five payments of \$3,060.00 each)
Docket fee (1939 voucher M-22)
Expenses (printing petitions, reporting, printing briefs, etc.) in connection with above cases

1939 voucher M-22
1939 voucher M-24
1940 voucher M-11
1940 voucher M-17
1940 voucher M-24

Excess rent due to providing space for Federal Power Commission employees during rate investigation
Payments to Gas Companies Incorporated
Traveling expenses of F. H. Larch, Jr., to Amarillo, Texas, March 4 to 10, 1940
Proportion of services rendered in a study of money costs by Standard Statistics Company, Inc. for the period March 21 to May 31, 1940

Total deferred rate case expenses to September 30, 1940

Valuation Report (Work Order 346) - (Work Order 351)	Physical Inspection (Work Order 351)	Total
\$ 8,299.36	\$ 8,296.18	\$16,595.54
3,136.11	1,028.91	4,165.02
5,105.25	7,895.27	12,999.52
471.95	1,890.85	2,362.80
511.00	3,811.95	4,322.95
908.57	753.39	1,661.96
7,043.96		7,043.96
29,482.92		29,482.92
32,014.97		32,014.97
	7,407.45	7,407.45
<u>\$75,136.12</u>	<u>\$20,756.91</u>	<u>\$95,893.03</u>

\$15,300.00
50.00

149.96

15,759.96

191.66

\$ 217.93

3,161.80

2,843.87

\$114,606.75

Exhibit No. 173

Docket G-124

Schedule No. 5
Sheet 2 of 2

COLORADO INTERSTATE GAS COMPANY
DEFERRED RATE CASE EXPENSES
SEPTEMBER 30, 1940

8**Notes:**

- (1) The Examiner has reclassified to operating expenses the pay roll charges representing the regular time of regular employees which were charged to the rate case expense work orders. The amounts are shown below by work orders and by periods:

<u>Period</u>	<u>Valuation Report (Work Order 346)</u>	<u>Physical Inspection (Work Order 351)</u>	<u>Total</u>
Year 1939 (reclassified by Examiner's entry No. R-152, in exhibit covering 1939 income accounts)	\$2,676.06	\$1,002.91	\$3,678.97
Nine months ending September 30, 1940 (reclassified by Examiner's entry No. 1, Schedule No. 3)	460.05		460.05
Totals	\$3,136.11	\$1,002.91	\$4,139.02

- (2) Ford, Bacon & Davis, Inc. work was billed at cost of services plus 10%, plus overheads approximating 75%, plus expenses at cost.

Exhibit No. 173

9

Worksheet 04-1204

Schedule No. 6
Sheet 1 of 2

COLORADO INTERSTATE GAS COMPANY
OLD PLANT IN SERVICE
SEPTEMBER 30, 1940

	Per Books		
	Balance	Changes	Balance
	Dec. 31, 1939	Additions	Sept. 30, 1940
Transmission System			
218 Land	\$ 2,100.30		\$ 2,100.30
220 Rights of Way	110,100.05		110,100.05
226 Line Equipment	9,087,949.56	\$13,829.60	\$ 3,566.54
Total	\$ 9,200,169.91	\$13,829.60	\$ 3,566.54
			\$ 9,211,032.77
Compressing System			
218 Land	\$ 4,104.51	\$ 132.31	\$ 4,236.82
219 Leaseholds	623.25		623.25
221 Structures	185,654.96	216.07	185,871.03
223 Other Structures	186,015.99	560.09	186,576.08
224 Equipment	1,232,104.97	37,713.77	1,269,818.74
227 Other Equipment	5,380.18		5,380.18
Total	\$ 1,616,663.86	\$38,622.24	\$ 1,655,286.10
			\$ 1,655,286.10
Measuring Stations			
218 Land	\$ 12,210.15		\$ 12,210.15
222 Structures	51,526.76	\$ 2,155.80	53,682.56
225 Equipment	90,301.56	1,001.36	91,302.92
227 Other Equipment	3,037.29	1,000.12	4,037.41
Total	\$ 157,075.76	\$4,267.60	\$ 161,343.36
			\$ 161,343.36
Other Structures and Equipment			
218 Land	\$ 926.90		\$ 926.90
219 Leaseholds	115.50		115.50
223 Structures	59,573.44	\$ 1,571.82	61,145.26
227 Equipment	18,792.11	708.07	19,500.18
Total	\$ 78,387.95	\$2,276.69	\$ 80,664.64
			\$ 80,664.64
General Property			
219 Office Equipment	\$ 29,108.82	\$ 2,106.27	\$ 31,215.09
223 Service Equipment	67,524.79	6,160.85	73,685.64
225 Telephone System	116,873.63	39.17	116,912.80
226 Tools and Implements	33,990.69	3,159.73	37,150.42
Total	\$ 277,497.93	\$11,466.02	\$ 288,963.95
			\$ 288,963.95

Exhibit No. 173

10

Deck 0-126

Schedule No. 6
Sheet 2 of 2

COLORADO INTERSTATE GAS COMPANY
GAS PLANT IN SERVICE
SEPTEMBER 30, 1940

	<u>Per Books</u>		
	<u>Balance</u>	<u>Changes</u>	<u>Balance</u>
	<u>Dec. 31, 1939</u>	<u>Additions</u>	<u>Retirements</u>
			<u>Sept. 30, 1940</u>
Undistributed Fixed Capital			
205 Other Undistributed Fixed Capital	\$ 63,675.61		\$ 63,675.61
205 Entrance Right of Way	350,000.00		350,000.00
262 Law Expenditures during Construction	50,899.41		50,899.41
266 Interest during Construction	180,866.99		180,866.99
Total	\$ 645,442.01		\$ 645,442.01
Franchisees and Contracts			
	\$ 2,582,607.84		\$ 2,582,607.84
Total	\$11,566,365.76	\$12,455.59	\$12,797.97
			\$11,626,992.90

[Testimony of WITNESS EARLY]

Q. Mr. Early, I will ask you whether in connection with your accounting work on the Colorado Interstate Gas Company's books in this proceeding you have also prepared another exhibit entitled "A comparison of operations of Colorado Interstate Gas Company for the nine months ended September 30, 1940 and 1939, and balance sheet at September 30, 1940"?

A. Yes, sir, I did.

Mr. Lange: I would like to have the reporter identify this document.

The Trial Examiner: It will be marked for identification as Exhibit No. 173.

(Exhibit 173, Witness Early, marked for identification.)

By Mr. Lange:

Q. Mr. Early, did you also in the preparation of the exhibit prepare a written statement briefly outlining the contents of the exhibit?

A. Yes, sir, I did.

Q. Will you please read that into the record?

A. "The principal purposes of this exhibit are as follows:

"(1) To present a comparison of operations of Colorado Interstate Gas Company for the nine months ended September 30, 1940 and 1939.

"(2) To present the expenses incurred by Colorado Interstate Gas Company in connection with this rate case up to September 30, 1940.

"(3) To present the changes in the investment of Colorado Interstate Gas Company in gas plant in service for the nine months ended September 30, 1940.

"The schedules forming this exhibit and which present the detail supporting the purposes as explained in the previous paragraph are as follows:

"Schedule No. 1 Statement of income and surplus accounts as reclassified for the nine months ended September 30, 1940, and 1939 and comparison.

"Schedule No. 2 Statement of operating expenses, as reclassified, for the nine months ended September 30, 1940, and 1939 and comparison.

"Schedule No. 3 Examiner's Entries reclassifying rate case expenses.

"Schedule No. 4 Balance sheet, as reclassified, September 30, 1940.

"Schedule No. 5 Deferred rate case expenses September 30, 1940.

"Schedule No. 6 Gas Plant in service September 30, 1940.

"All of the figures used in this exhibit are those shown by the books at the dates stated in the schedules after giving effect to rate case expenses removed from operating expenses and reclassified as deferred rate case expenses.

"Results of Operation

"Net utility income, as shown in Schedule No. 1, decreased \$99,225.03 for the nine months ended September 30, 1940, as compared with the nine months ended September 30, 1939. The decrease in the result of changes in the following operating accounts:

	Increase (Decrease) 1940 over 1939
Operating revenues	<u>\$204,056.58</u>
Operating revenue deductions:	
Gas purchased for resale	72,730.44
Operating expenses	17,898.04
Depreciation	61.96
Amortization	.....
Taxes	<u>212,591.17</u>
Total	<u>\$303,281.61</u>
Net utility income	<u>(\$ 99,225.03)</u>

"The increase in operating revenues resulted primarily from greater consumption of gas for residential and com-

mercial use, both spaceheating and regular. Also operating revenues per the company's books for 1939 are after a reduction by \$73,560.57, due to the reversal made on the books in January 1939 of unbilled revenue accrued as of December 31, 1938. The company did not record a comparable accrual as of December 31, 1939.

"The increase in gas purchased for resale is due principally to the purchase and sale of a larger volume of gas. The increase of $\frac{1}{4}$ ¢ per Mcf. in the cost of gas purchased during 1940 is occasioned by a reduction in the sales price to Canadian River Gas Company of gasoline approximately fifty per cent. Revenues from gasoline enter into the computation of the gas rate.

"The fluctuations accounting for the net increase in operating expenses in the amount of \$17,898.04 are detailed in Schedule No. 2 by functional groups. The most extraordinary fluctuations which caused this increase and the explanation therefor were found in the following accounts:

Transmission Expense

Maintenance—Transmission System Line Equipment

"The increase of \$18,796.25 in this account is due principally to the soil resistivity survey work carried on in 1940. The expense in 1939 in connection with this work was recorded and carried in construction work in progress until cleared to expense in December 1939. During 1940 such charges were distributed to expense monthly.

Transmission Expense

Maintenance—Transmission System Other Equipment

"The decrease of \$24,979.12 in this account is primarily due to expenditures for flood control made during 1939.

Transmission Expense

Maintenance—Compressing System Equipment

"The increase of \$9,251.60 in this account resulted from major repair items (pistons, cylinders, etc.) required by the compressors in 1940.

"Sales Promotion Expenses

Labor and Miscellaneous

"Sales promotion expenses in 1940 consist of the following:

National Biscuit Co., Denver, Colo:

Payroll charges for estimating requirements for new load \$ 104.47

Contribution to Public Service Company of Colorado 1,000.00 \$1,104.47

Nuckolls Packing Co., Pueblo, Colo.

Payments to Nation Tube Company and Standard Oil Company of New Jersey for pipe and freight 8,514.12

Total \$9,618.58

"These expenses may be considered nonrecurring because no further payments in connection with either National Biscuit Company or Nuckolls Packing Company are anticipated.

"Taxes increased in the amount of \$212,591.17 of which \$191,000.00 represents accrued Federal income taxes.

"Financial

"Schedule No. 4, the balance sheet at September 30, 1940, reflects the balances as shown by the books with the exception that rate case expenses are reclassified in accordance with the footnote on that schedule.

"The most significant change in the balance sheet since December 31, 1939, is the collection of the loan made to Standard Oil Company of New Jersey which amounted to \$600,236.98 at December 31, 1939.

"The suspense account came into use after December 31, 1939, and the balance therein at September 30, 1940, is the result of the following transactions:

"Debit

"Note of Ford, Bacon & Davis, Inc. transferred from notes receivable in May 1940.
Arkansas Valley Natural Gas Company was the recipient of the funds advanced for this note

\$67,500.00

"Credits

"Note receivable from Arkansas Valley Natural Gas Company \$10,000.00

Arkansas Valley Natural Gas Company assets acquired:

Materials and supplies	6,760.70	
Furniture and fixtures	612.87	
Sundry	204.30	

Cash received	5,000.00.	22,577.87
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Balance September 30, 1940		\$44,922.13
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"Changes in gas plant in service for the nine months ended September 30, 1940, are summarized by accounts in Schedule No. 6 and classified between additions and retirements:

"Description of the major additions and the plant accounts to which charged are as follows:

"226 Line Equipment

"Work orders covering cathodic protection

No. 362 Main Line	\$ 639.75	
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No. 364 La Junta and Arkansas		
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Valley	4,523.22	
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No. 374 Fitzsimmons	2,059.38	
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No. 375 North	922.74	\$ 8,145.09
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"Other

No. 377 Bridge across creek	470.98	
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No. 378 Repairing Purgatorie Bridge	1,036.54	
-------------------------------------	----------	--

No. 381 Replacing joints	678.65	
--------------------------	--------	--

No. 382 Repairing washout	2,791.73	4,977.90
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		\$13,122.99
--	--	-------------

224 Compressing Equipment

Work Order No. 359 covering 1-600 H.P. compressor installed at Canon station \$36,735.72

222 Measuring Station Structures

Work Order No. 369 covered one-room addition to 5-room house, Denver station \$ 1,770.35

227 Measuring Station Other Equipment

Work Order No. 366 covered flood water control work at Denver station \$ 1,044.03

256 General Property—Tool and Implements

Vo. DI-35, 1940 covers the purchase of one earth drill for truck mounting \$2,289.08

Q. In connection with the preparation of this Exhibit 173 I will ask you first whether this exhibit was prepared by you and the figures were obtained from the company's books and records.

A. By me and under my supervision.

Q. By you and under your supervision?

A. Yes, sir.

Q. Where did you obtain these figures you report in your exhibit at the company's offices?

A. The figures were obtained in part from the Colorado Springs office, that is, from the books and records kept there and in part from financial statements sent to me from the New York office.

Q. The New York office of the Colorado Interstate Gas Company?

A. Yes, sir.

Q. And are these figures all as per books?

A. They are all as per books with the exception that rate case expenses have been removed from the operating accounts and set up as a deferred account on the balance sheet.

Q. Where does that appear—on what page?

A. Page 6 shows on the left-hand side near the bottom under "Deferred Debits" the deferred rate case expenses. Those are detailed on the following page.

Q. In Schedule 5, Page 5?

A. Yes, sir.

Q. And that continues over on Page 6?

A. That is correct.

Q. In all other respects were these figures as per books of the company?

A. That is correct.

Q. Now referring to Page 1 of the exhibit, have there been any computations made by you in connection with that Schedule 1 appearing on that page?

A. Yes, there have.

Q. Which columns and which items?

A. Columns 3, 5, 6, and 7 are the results of computations showing statistical data in regard to the operations of the two nine-months periods.

Q. Columns 2, 5 and 7?

A. No, Columns 3, 5, 6 and 7. They are on Page 1.

Q. Page 1?

A. Yes.

Mr. Lange: That is all for the present, Mr. Early.

Cross Examination.

By Mr. Dougherty:

Q. Mr. Early, in your written statement where you speak about sales promotion expense, labor and miscellaneous, you have down here at the bottom of the page "Payments to National Tube Company and Standard Oil Company of New Jersey for Pipe and Freight." Does that represent pipe purchased by the company in that year?

A. (Pause.)

Q. I don't quite get the tieup in between it. You have "sales promotion expenses in 1940 consist of the following:" and you start out with the National Biscuit Company, Denver, Colorado, and then you have the statement "Payments to National Tube Company." I don't tie that in with what you call sales promotion expenses.

A. It is my understanding that the pipe and freight, valued at a little over \$8500, were paid for by Colorado Interstate Gas Company and the pipe is used to connect up the Nuckolls Packing Company in Pueblo, Colorado, to the distribution system of the Pueblo Gas & Fuel Company.

Q. That is probably pipe that has been given to the Pueblo Gas & Fuel Company?

A. That is correct.

Q. And the payments, then, represent the amount paid for the pipe which was so used?

A. That is correct.

Q. You mentioned about repayment of a loan made to Standard Oil Company of New Jersey in the amount of six hundred thousand and some-odd dollars. Are you familiar with the terms of the loan?

A. No, I am not.

Q. As I recall it, I thought it was your exhibit that you spoke about the deposit by Colorado Interstate Gas Company with the Standard Oil Company of New Jersey of balances from time to time as they had them available, and I thought that in that exhibit there was something said about "these were repayable upon demand." Am I correct in my recollection?

A. I believe I recall the latter portion of that, that they were payable upon demand.

Q. And this \$600,000, did not that represent that advance that has been so carried with the Standard Oil Company of New Jersey under the terms we just mentioned?

A. Yes, that is the same account.

Q. And the result of this is simply that practice was changed?

A. I do not know that the practice was changed or that Colorado Interstate Gas Company merely demanded the payment of this loan. Anyway, it was converted to cash.

Q. In the sense of the term "loan," that was not any long-term or short-term loan represented by a note: it was just an open-book advance?

A. That is correct.

Q. Did you make inquiry to find out whether the practice of carrying these amounts on deposit with the Standard Oil Company of New Jersey had been discontinued at the end of 1939?

A. No, I did not make that investigation. In fact, my working papers indicate that deposits were made into this account as late as June or July 1940.

Q. There were none shown after that?

A. At the end of September the account was wiped off.

Q. You did know, I assume, for some period of time that interest was paid Colorado Interstate Gas Company on those advances?

A. Yes, I recall that a small amount of interest was paid on those advances.

Q. Referring to Statement 1, Page 1, I guess it is, your income account for 1939, as you show it, differs in what respect from your income account as shown in your Exhibit No. 140 for 1939?

A. You mean as to its form?

Q. No, as to its figures; that is, I want to know whether or not the figures which you have here for 1939 in this Exhibit 173 represent the same figures, the same adjustments which you have made and as are shown in your Exhibit 140 for the year 1939.

A. No, that is not the case. This Exhibit No. 173 shows only the nine months of operations of 1939 in order to present a comparison with the same period of 1940. Exhibit No. 140 covered the full year 1939.

Q. Have you made adjustments for the nine months of 1939 so far as you could which were made for the same year in Exhibit No. 140?

A. No, I have not. The only entries applying to the company's book figures are those necessary to remove the rate case expenses from the operating accounts and then set them up as a deferred account in the balance sheet.

Q. So that with that exception these were taken right from the books?

A. That is correct, from the books and the financial statements.

Q. And the amounts here for depreciation and amortization are as per books?

A. That is correct.

Q. If you had not removed the rate case expense that would have made a difference in the computations you made of the cents per Mcf. applied to the different items?

A. That is correct.

(Vol. XLIX, pp. 6769-6781.)

19. Cost of Contracts of Colorado Interstate.

In addition to its physical properties, Colorado Interstate acquired and paid for its gas purchase contract with

Canadian dated January 3, 1928 (Exhibit 16), and its gas sales agreement with Public Service and Pueblo Gas and Fuel Company, also dated January 3, 1928 (Exhibits 7-I and 7-H respectively), and its gas sales agreement for sales to Colorado Springs (Exhibit 7-E). These contracts, and some of the evidence surrounding their negotiation, have been abstracted supra. The respondent, through its witness Lusk, in Exhibit 77, presented the book cost of such contracts as follows:

“(a) Gas purchase agreement dated January 3, 1928 with Canadian River Gas Company, \$2,000,000.

“(b) Gas sales agreements dated January 3, 1928 with Public Service Company of Colorado and Pueblo Gas and Fuel Company, respectively; \$352,941.17.

“(c) Gas sales agreement dated June 12, 1931 with City of Colorado Springs, Colorado, \$236,666.67; total, \$2,589,607.84.

“As a part of the consideration to be received by Canadian River Gas Company for entering into the agreement described under Item (a) above, Colorado Interstate Gas Company issued to Southwestern Development Company, as nominee of Canadian River Gas Company, 531,250 shares of its no par value common stock and 10,000 shares of its preferred stock (\$100 par value).

“As a part of the consideration for the execution of the two agreements described under Item (b) above, Colorado Interstate Gas Company issued to Cities Service Company, 187,500 shares of its no par value common stock.

“The total consideration of \$250,000 was paid to A. K. Lee for the contract described in Item (c) above and the natural gas franchises for the towns of Ordway and Sugar City.

“The franchises last mentioned were assigned by Colorado Interstate Gas Company to Arkansas Valley Natural Gas Company for \$13,333.33 which represents the adjustment shown on the statement.” (Vol. XVII, pp. 2426, 2427.)

On being cross-examined, Lusk said he did not investigate the negotiation of these contracts (Vol. XVII, p. 2427). He stated that his examination of their books disclosed no affiliation between Canadian and Colorado Interstate. Their properties were operated jointly (p. 2428). He only examined the books and the minutes. His exhibit presented the cost of contracts as shown on Colorado Interstate's books in New York. He made no investigation as to the reasonableness of the payment for the contracts. The first two contracts, Items (a) and (b), were paid for in stock only. The third contract, Item (c) was paid for in cash (p. 2429).

As to the contract with Colorado Springs, purchased from Arthur K. Lee, the total amount paid was \$275,000, but by agreement with Colorado Springs prior to the purchase of the contract from Lee the city refunded the \$25,000 deposit to guarantee Lee's performance, thus making the net payment \$250,000. Lee had also made deposits for the same purpose of \$15,000 at Ordway; \$5,000 at Sugar City, \$5,000 at Fountain, and, when Colorado Interstate assigned these franchises to Arkansas Valley, it was successful in recovering two-thirds of \$20,000. Fountain refused to surrender \$5,000 (p. 2430). These franchises were assigned as a part of the same transaction to Arkansas Valley.

Colorado Interstate began amortizing these amounts paid for the contracts over a period of twenty (20) years (p. 2431). The amount on its books as of December 31, 1939, less amortization from the beginning, was \$1,118,061.69.

Q. Mr. Lusk, have you had occasion to and did you investigate the facts and circumstances surrounding each of these; for instance, the \$2,000,000 item, (a) gas purchase agreement dated January 3, 1928 with Canadian River Gas Company?

A. I did not investigate any of the circumstances, no, Mr. Lange. These are exactly the amounts recorded on the books of the Colorado Interstate Gas Company.

Q. Is there any other information recorded on the books in connection with each of those items or any of them?

A. Only the extracts of the minutes which are quoted over here in the statement.

Q. Did you know in connection with your accounting work on these books as to the affiliation between the Canadian River Gas Company and the Colorado Interstate Gas Company and Southwestern?

A. Any affiliation between the two?

Q. Yes.

A. Not that I know of.

Q. Well, you know that Canadian River Gas Company and Colorado Interstate have been operating as a single business unit?

A. That is presumed to be the fact; yes, sir.

Q. And that Mr. Christy Payne's statement right at the beginning in the record of this case shows that it was one enterprise, divided into two corporate entities, is true?

A. That made the true.

Q. That was the purpose of it at the very beginning, wasn't it, one project?

A. I think it was; yes, sir.

Q. Have you had occasion to make any study of the corporate relationship existing between the several companies involved on Page 1 as recited there in your exhibit, at the time these various amounts were set up?

A. No, sir, I didn't go any further than the book records and the extract from the minutes.

Q. These are, then, in simple language, the cost of franchises, aren't they?

A. No, they are the recorded book amounts and the cost of contracts. They are listed in the New York books of the Colorado Interstate Gas Company under the terminology or nomenclature of "contracts and franchises."

Q. What investigation, if any, did you make as to the reasonableness of each of these charges?

A. Well, as far as the reasonableness is concerned, I'll say I made no investigation. The amounts shown in the top two lines in the statement, Items 1 and 2, are exactly a recording of the number of shares, 531,250 shares of common, and 10,000 shares of preferred. The preferred at a par value of \$100 extended to a value of \$1,000,000. The 531,250 shares of common stock extended at \$1,000,000 is identical with the amounts paid by the Standard Oil Company (N. J.) for a like number of shares.

Q. What actual cash was paid by the Colorado Interstate Gas Company on this first item, \$2,000,000?

A. They didn't pay any.

Q. What actual cash was paid by Colorado Interstate Gas Company on Item (b), 352,941.17?

A. They didn't pay any.

Q. What actual cash was paid by Colorado Interstate Gas Company on Item (c), \$236,666.67?

A. Actual cash.

Q. Yes.

A. Yes, sir.

Q. They didn't pay any?

A. Actual cash paid, I said.

Q. That was actual cash paid?

A. Yes, sir.

Q. That is the only one?

A. Yes, sir.

Q. Now, have you got a breakdown of that last item?

A. Well, the amount paid, the total amount paid to the Guaranty Trust Company as escrow agent was \$275,000. The amount recovered from the City of Colorado Springs due to a default of A. K. Lee was \$25,000, making a net payment of \$250,000, and Mr. Lee also had deposits of \$15,000 at Ordway, \$5,000 at Sugar City, and \$5,000 at Fountain, and Colorado Interstate Gas Company when they took over those franchises were successful in recovering two-thirds of the \$20,000. Fountain refused to surrender \$5,000 of the \$20,000.

(Vol. XVII, pp. 2427-2430.)

Colorado Interstate began amortizing these amounts paid for the contracts over a period of twenty (20) years (p. 2431). The amount on its books as of December 31, 1939, less amortization from the beginning, was \$1,118,061.69.

The total amount, as thus shown on the books of the company as the cost of franchises and contracts, was removed from the plant account by witness Schutte in his Exhibit 139 (Entries 224 and 225, pp. 39 to 45).

Exhibit 139 and the testimony of witness Schutte has been abstracted above, except with reference to this par-

ticular adjustment. The witness on cross-examination, respecting this adjustment, testified:

Q. Now I would like to direct your attention to Account 303 which is headed "Miscellaneous Intangible Plant" and provides that it shall include the cost of patent rights, licenses, privileges and other intangible property necessary or valuable in the conduct of the utility's gas operations and not specifically chargeable to any other account.

This is under a heading in the gas plant accounts which is called "Intangible plant." I am correct in that?

A. Yes, sir.

Q. Now, gas plant instruction No. 3, which is headed "Gas Plant to be Recorded at Cost" has in Paragraph B an instruction with respect to intangible gas plant?

A. Yes, sir.

Q. And again that is to be stated at cost as set forth in Paragraph A which is the original cost incurred by the person who first devoted the property to gas service?

A. That's right.

Q. Now, what do you understand by "intangible gas plant"?

A. Well, various items could go in intangible gas plant. I should say such items as are properly a part of the capital structure and are not physical plant.

Q. Now, with respect to the contract which Colorado Interstate Gas Company has with Canadian River Gas Company for the purchase of gas and which I think is discussed in your Adjusting Entry 224, now, if that would be an item which all would agree properly should be in the capital account—the plant account—is this account 303 the appropriate place for it?

A. If we agreed that it were a proper capital charge, that would be about the only possible place to put it.

Q. And that is pretty much evidenced by the final clause in Paragraph A under 303 which says:

"... not specifically chargeable to any other account"?

A. That is correct.

Q. Now, to be put properly in Item 303, I take it it would have to be some item of intangible property valuable in the conduct of the utility gas operation?

A. And recorded at cost.

Q. Now, in the first place, the contract for the purchase

of gas would satisfy the first part of the agreement, wouldn't it; that is, that would be an item of intangible property?

A. An item of intangible property, but even as such it would be subject to question.

Q. Well, I'm trying to take it up step by step and find just where we get to the barrier.

A. All right, sir.

Q. It certainly is necessary or valuable in the conduct of Colorado Interstate's gas business?

A. That is correct.

Q. And it certainly is not specifically chargeable to any other account.

A. That's correct.

Q. So that what is the objectionable feature of putting whatever the—as you say, the original cost of such a contract might be, in Account 303.

A. Well, this is a rather involved transaction from my viewpoint, and it is my opinion that the contracts entered into for the purchase and sale of gas for which the stocks were issued as a part consideration, would have to be considered as advantageous for all of the participants. It would follow, then, that Southwestern Development Company who controlled the company owning the leases and wells and was desirous of marketing its product would be interested in selling its gas advantageously to itself and, likewise, Cities Service Company who controlled certain outlets for the ultimate sale of gas would be interested in purchasing gas for resale upon a basis advantageous to itself. Standard Oil Company (N. J.) had the necessary finances and was willing to make an investment would be interested in making an investment that would be advantageous to itself. The financing was handled as one enterprise, and from a standpoint of operation, it is likewise handled more or less as one enterprise, even though two companies were organized to carry on this particular business.

As a matter of fact, in the financing, Canadian River Gas Company's bonds are pledged as partial security of Colorado Interstate's bond issue.

Now, in the first place, as I interpreted that particular contract, it seemed to me that those stocks were intended to be given to Canadian River Gas Company, but according to the minutes of Colorado Interstate Gas Company the

stocks were ordered issued in the name of Southwestern Development Company. The Southwestern Development Company, of course, had caused the organization of Canadian River Gas Company and owns and has always owned all of its capital stock, for an initial investment of one dollar. Southwestern Development Company also controlled at the time of this transaction; that is, at the time of the inception of Canadian River Gas Company—owned or controlled the Amarillo Oil Company who in turn owned the leases and wells which are the production system of the enterprise.

Q. Well, that has no direct bearing on this particular—

A. I think it does.

Q. Well, whatever amount had been paid by Canadian River Gas Company to Amarillo Oil Company has no bearing on the transaction here.

A. I still think it does, Mr. Dougherty.

Q. Well, you are going back into something that might have taken place if something else had been done.

A. Well, you asked me for my reason for not wanting to put that in there.

Q. All right, go ahead.

A. Now, the facts of the matter are that Amarillo Oil Company, a wholly-owned subsidiary of Southwestern Development Company, owned leases and wells. Southwestern Development Company had them transferred or sold, if you please, to Canadian River Gas Company for five million dollars, but it did not furnish the money for that. That money came from the general financing program.

In that particular method of handling the item, Southwestern Development Company was paid in full for the initial investment in the leases and wells plus a very substantial profit. In other words, in so far as their production system was concerned, they have already been compensated for that very handsomely.

Q. Well, when you say that you mean they have been compensated with respect to original cost?

A. That's correct.

Q. You are making no statement as to whether they got more than it was worth from a market standpoint?

A. I wouldn't know whether it was worth more or whether it was worth less from a market standpoint.

Q. You do recognize in the oil and gas business that there is such a thing as discovery value? A lot of times money that is put into an oil well can produce handsome results because of the results of drilling the well.

A. That is right.

Q. I mean, that isn't anything new—leaving out utility company operations, that thing happens.

A. As I see it, they ate their cake, but they still have it.

Q. That all depends on value. I appreciate what you are talking about is cost.

A. That's right. Now, in addition to that particular participation, as to the production system, it also received 42½ per cent of the common stock of Colorado Interstate Gas Company and initially it received ten thousand shares of the preferred stock of Colorado Interstate Gas Company. Those stocks were issued to it by Canadian River Gas Company in connection—as I understand the minutes—with the issuance or the execution of this gas sales contract.

Now, when you look at it from that basis, in the first place it would be very difficult to set a value on the inter-company sales contract—sales and purchase contract, and the value that has been set up for it is not necessarily cost because you had a no par value common stock for one thing and you set a value on that, and from an inspection of the minutes of the Board of Directors' meetings, I can't find that they authorized—who authorized the price or the value at which that stock was set up.

Of course, the preferred stock would necessarily be set up at par value because it was a par value stock, but that wouldn't indicate either that the contract was correctly valued.

Q. Well, now, I take it from your general description going back clear to the profit that lies between the five million dollars and the original cost to Amarillo Oil Company and your statement that this stock was then issued for the sale of gas from that same property, you really believe that those representing Southwestern Development Company sort of out-traded those representing the Standard Oil Company?

A. I certainly do. I never have understood how Standard Oil Company representatives would permit themselves to be out-traded, but to me it seemed they were.

Q. You recognized that so far as Colorado Interstate is concerned that the money was put up by the Standard Oil Company?

A. Absolutely.

Q. In Colorado Interstate's securities?

A. That is correct.

Q. Now I want to ask you a few specific questions to see if I can maintain the trading reputation of my predecessors. In the first place, I think you know that this contract for the purchase of gas provides that the price which Colorado Interstate shall pay is in effect based upon out-of-pocket expenditures of Canadian River Gas Company over this period—over this first period of twenty years?

A. You mean the cost of gas?

Q. Yes.

A. I don't interpret the cost of gas the same way that contract does.

Q. Well, now, I didn't say—I don't mean the cost of gas, but the price which Canadian River charges is based upon all of the out-of-pocket expenditures including the amounts necessary to retire their debt and interest on whatever the reduced amount is each year.

A. When you say "expenditures," instead of "expenses," I agree with you, yes, sir.

Q. Well, I am not trying to be technical, but the way it is done is that they charge a composite sum which is made out of all of these expenditures that we have discussed. Now, that transaction also has an option so that if Colorado Interstate wants to take gas after the first twenty years, it can do so and still pay for it on the basis of Canadian River's expenses in producing the gas, drilling the wells and whatever is necessary?

A. That's right.

Q. You recognize that the bonded indebtedness of Canadian River would be paid off in the first twenty years?

A. That is correct.

Q. And that there would no longer be accruing any interest on such funded debt?

A. That is correct.

Q. So that in the second twenty years there would probably be a reduced amount of expenditures by Canadian River Gas Company, certainly at any rate by that portion formerly paid to reduce the bonded indebtedness and interest thereon?

A. That is right.

Q. Now, unless there are a great amount of additional expenditures needed by Canadian River to continue to produce gas, it would be expected, wouldn't it, that after that first 20-year period the amount which Canadian River receives from Colorado Interstate for its gas would be less than during the immediate few years of the end of the first 20-year period?

A. Well, let's see if I can get my idea across on that.

Q. You understand what I am talking about?

A. I think I do, yes, sir. You are right so far as the bonded indebtedness is concerned. I listened to Mr. Rhodes, and I think Mr. Watson, and several other gentlemen here telling what additional facilities were going to be necessary by 1947, which is before the expiration of the first twenty years. The inter-company debt other than bonded debt; that is, the serial notes, are likewise being amortized over this first 20-year period—either, as I recall it, over a 20-year period or the remaining part of the 20-year period.

Q. That's right.

A. In effect, at the end of the 20-year period, then Southwestern Development Company will in effect own all of the Canadian River Gas Company properties for a total initial investment of one dollar.

Q. But still subject to the contract that Colorado Interstate has to call on for gas?

A. And Colorado Interstate; if they require additional facilities, and according to these gentlemen I mentioned, they are going to need a lot of additional facilities, Colorado Interstate would be required to put up additional funds and those funds in turn would again be amortized to a series of company notes.

Q. Now, that, of course, would be done if the volumes of gas available would justify further expenditures after 1948?

A. That is correct.

Q. If it did not, then Colorado Interstate has the option to end its purchase of gas?

A. So I understand.

Q. And upon that occurrence is when Southwestern Development Company, through Canadian River Gas Company, would own the facilities with whatever available gas there was remaining?

A. Yes..

Q. During that period Canadian River would have received no funds with which to pay any dividends during the first twenty years?

A. Possibly it was not intended to work out that way, but they actually, under existing conditions, have accrued surplus.

Q. But no funds with which to pay any dividends out of that surplus?

A. That's right.

Q. And that surplus comes about purely by reason of an income tax base on depletion that is different from the payment that the company—Canadian River—has to make on its debt?

A. I wouldn't say an income tax base, I would say by the application of more correct accounting principles.

Q. Well, it has to do with the matter of dealing with the Internal Revenue Department of the United States.

A. It was brought about that way, yes, sir.

Q. So it is really a bookkeeping surplus rather than dollars in the bank?

A. I wouldn't say it was a bookkeeping surplus. It is right that it is not dollars in the bank. It is a surplus arising because of the difference in applying to the gas billings to Anasillo Oil Company and to Public Service Company of Colorado the expenditures made to liquidate or amortize debt as compared with what the Internal Revenue Department or Bureau advocated as proper allowances for depreciation and depletion on the primary production facilities and Canadian River Gas Company's pipe line.

Q. Did you use the term "Public Service Company" there?

A. I intended there, if I didn't—Public Service Company of Colorado. In other words, the contract here is what I am referring to.

Q. You are referring now to the contract to sell gas to Cities Service Company? I don't understand how—

A. Did I say Cities Service? I intended to say Public Service.

Q. I don't understand how that comes into it.

A. Well, that contract provides for the substitution—not just that way, but this is my interpretation of it—for the substitution of amortization of debt for depletion and depreciation.

Q. I thought that was the contract between Canadian River and Colorado Interstate rather than—

A. That is what I meant. You are right. I beg your pardon. You are correct. I just got a step ahead of myself there.

Q. Well, it is a fact and would be a fact that at the end of the first 20-year period, all of the money which Canadian River collects from Colorado Interstate would be in turn paid out by Canadian River for the things which you would agree are operating expenses, and then for the additional expenditures for the payment back of debt and interest thereon?

A. That is right.

Q. There is no accrual or accumulation of anything like a profit over and above these various expenditures in determining what Canadian River shall receive for this gas?

A. There is an accrual of surplus because of those differences.

Q. Well, I mean other than that.

A. Other than that, I don't think so.

Q. Now, from an accounting standpoint, isn't it appropriate that so far as this type of a contract is concerned, which is not the usual type of gas purchase contract, would its value be determined by the officials of the company who have to deal with it; that is the way it was determined in this instance, of course?

A. I don't know how it was determined. The record doesn't indicate that.

Q. Well, do you follow accounting principals in determining whether it has any value or not, or is that some other set of rules and regulations you have to follow?

A. I don't see how you could put an accounting interpretation on the value of that particular contract.

Q. Well, in the first place the Code provides, does it not, that if cash is issued for property—or, rather, put it this way—starting off with Definition 10, it reads:

“‘Cost’ means the amount of money actually paid for property or services or the cash value at the time of the transaction of any consideration other than money.”

A. That's right.

Q. Now, there was issued as consideration for the execution of this contract a consideration other than money?

A. That's correct.

Q. And I take it that whether that stock has been issued to Canadian River or Southwestern Development Company has no bearing on your adjustment here.

A. Yes, I would say it has. If you were looking at the consolidated picture of the enterprise as a whole and that stock had been issued to Canadian River Gas Company, there would be a wash transaction in making your consolidation between the two, and it wouldn't have any effect.

Likewise, the earnings would be taken care of on that basis.

Q. Well, there is no basis for consolidation of the operations of Canadian River and Colorado Interstate on any accounting principles.

A. Only in so far as we are trying to determine the original cost of the properties necessary for this Denver pipe line project. To that extent—strictly from an accounting standpoint I would say no. The only point there is, of course, the ownership by Colorado Interstate Gas Company and the bonds of Canadian River Gas Company.

Q. Well, that doesn't justify consolidating your property accounts or income accounts, does it?

A. That is correct.

Q. What you are talking about when you say "consolidating them" is for rate case purposes?

A. That is right.

Q. Now, having in mind that on the books of account of this company, when this classification is made and filed with the Commission—and by "this company" I mean Colorado Interstate—that summary has to be made. The stock, whatever its determined value on the books, would be the same irrespective of who owned it.

A. Well, on that common stock which has no par value, you could put almost any stated value you wanted to on that.

Q. Well, whatever the stated value is, however, it is there, irrespective of who the stockholder is?

A. Yes, but what I am trying to say is that that is not an indication of the true value of a contract.

Q. Now, I am still talking about the consideration given for the contract rather than whether or not the contract was worth the consideration, because there is a difference—you recognize that?

A. Yes.

Q. As a matter of fact, you have previously said that what was received for this stock in effect was not worth what Colorado Interstate did give for it.

A. I said that was my idea.

Q. Yes, that's what I mean. I understand that.

Now, in determining the cash value of a consideration other than money, that requires some exercise of judgment, I assume, because the Code does say we have got to put some cash value on the consideration given.

A. That is right.

Q. Now, that same thing is referred to in gas plant instruction 3 under Paragraph D, where it says:

"When the consideration given for property is other than cash the value of such consideration shall be determined on a cash basis."

Now, as I interpret that, Mr. Schutte, that means you determine the cost or the value of the consideration, not on the basis of the value of what you got for the consideration but on the basis of the cash value or the cash basis of the thing you gave up; that is, in determining the appropriate value of the stock which was issued for this contract, and I am now speaking only of the Canadian River contract, we would determine the value of that stock on a cash basis and not on a basis of what the contract is worth.

A. In other words, you determine the value of the stock rather than the value of the contract.

Q. Exactly, and isn't that what you have to do in accordance with this instruction? It says: "When the consideration given for property is other than cash, the value of such consideration shall be determined on a cash basis." Now, doesn't that mean that you find out if you can what the cash basis is or cash value of the stock was?

A. That's right.

Q. Now, that was arrived at—I understand that you are correct, that the Board of Directors did not formally make any declaration of the declared value.

A. I couldn't find any declaration.

Q. Well, I couldn't either. It is quite apparent, how-

ever, isn't it, that the cash basis or the cash value of the stock that was issued to Southwestern Development Company was based on the actual cash paid for a similar quantity of stock by Standard Oil Company?

A. It would appear to be so, yes, sir.

Q. That's just it. There it is.

A. There it is, and you can't get away from it.

Q. So that isn't it a fair assumption to make that the cash basis or the cash value of the stock issued to Southwestern Development Company was two million dollars?

A. I think that could be said.

Q. Because somebody else had paid two million dollars for a similar quantity of stock.

A. That is right.

Q. So that on the basis of the cost to—and again, purely from an accounting standpoint, on the basis of the cost to Colorado Interstate, the cost of this contract was two million dollars, whether it was worth it or not. The actual cost, following the Code provisions, from an accounting standpoint would be two million dollars.

A. I think that is correct.

Q. Now, this is the first time that this contract ever had any value assigned to it. It wasn't on any other books of any other company at any value preceding the entry made by Colorado Interstate.

A. So far as I know there was no prior value assigned to such contract.

Q. Well, Canadian River had never assigned any value to the contract on its books to your knowledge?

A. To my knowledge.

Q. And Southwestern Development Company had never set up any value for this contract on its books?

A. That's right.

Q. So that the first time there was any entry made fixing a value on this contract was when this entry was made on Colorado Interstate's books?

A. That's right.

Q. And that has never been changed, either up or down?

A. That's right.

Q. Well, now, having those facts in mind, isn't it a little inaccurate to say, as you do, that this is a writeup of the plant account?

A. No, I don't think so. I think I am correct in making that interpretation from my ideas of it.

Q. Well, now, let's see where we differ. As I understand, a writeup means that the books of the accounting company at any particular time, containing an assigned value or a figure for some asset which is a greater figure than the same assets were set forth on either the books or at least—first on the books of that same accounting company so that if by some appraisal, for example, if the "X" company in the oil and gas business would have some leases which they later developed and were worth a lot more money, or by a re-appraisal of those leases would increase the book cost, that would be a writeup, wouldn't it?

A. That would be a writeup, yes.

Q. Now, do you consider a writeup where the "X" company sells property to "Y" company at a profit, if the "Y" company sets those assets upon the sale price rather than the cost of the selling company?

A. I didn't quite follow that.

Q. Well, what other kind of writeups do you have in mind?

A. Well, those are the primary kind. However, when securities enter into inter-company transactions, that is the sales, it has been customary to put the property into a pot, so to speak, and issue a bunch of securities against them and then later on evaluate the securities. That would be another type of writeup.

Q. That is, if any company—or the "X" corporation having its property on its books at a certain number of dollars would transfer that property to another affiliated corporation for stock?

A. That's right.

Q. And then later the property would later be put on the books of the purchasing company at a greater amount of dollars than it stood on the books of the selling company?

A. That's right.

Q. But in each instance, Mr. Schutte, don't you have to have some amount to start with so that you have got a difference between the first entry and the second entry?

A. In those instances you do, yes. In this particular instance, which is an entirely different type of item in-

asmuch as this common stock could be valued at almost anything one would wish—in other words, the Board of Directors need not have used the price paid for that stock by Standard Oil Company of New Jersey. They could have used some other value had they wished. Of course, you come back to that cash cost and you have a little different situation.

Q. As a matter of fact, in 1927, without knowing it, they were doing exactly what the Federal Power Commission later on would require them to do?

A. That's right.

Q. Isn't what took place here an evaluation or an appraisal of an asset rather than a writeup of it?

A. I really don't consider that the contract was valued. The stock was valued, but the contract was not. In other words, let me put it this way: You could have put that contract on your books at one dollar and taken the difference between that and the value recorded for the stock and you could have put that in some other account, had they so chosen.

Q. What was done, it is perfectly apparent, isn't it, was that the contract was deemed as having been received for this stock, that this stock was deemed to have a cash basis of two million dollars, and that that amount was assigned as the value of the contract?

A. That is what actually happened, yes.

Q. Now, on those facts alone, then you couldn't tell whether it had been over-valued or under-valued?

A. But I say—

Q. Isn't that so?

A. It appeared to me to be.

Q. As far as those accounting facts and as far as those transactions are concerned, that contract may be worth five million dollars instead of two million dollars. From an accounting standpoint there is nothing, is there, Mr. Schutte, that has taken place which we have discussed that indicates that there was a writeup unless you get into an appraisal on that contract and its value?

A. Well, I considered that the company did make an appraisal of that.

Q. And wasn't that on the basis of the cash value of the stock that had been issued?

A. That appears to be a fact, yes.

Q. So that clearly, so far as the stock is concerned, it had that cash value and that would represent the cost to the company of this contract, whether it paid more or less?

A. Yes, I think I would have to agree with you.

Q. Yes. Now, if, for example, there had been no affiliation of any sort between Southwestern Development Company and the Colorado Interstate Gas Company, the issuance of stock to such an affiliated company in this amount for such a contract would properly be accounted for as it was here, wouldn't it?

A. It would probably be accounted for in the same manner.

Q. And the basis that you are attacking it is really not from an accounting standpoint, but from a rate case standpoint, because of the relationships between these companies?

A. Well, I think in any accounting examination I would handle it the same way whether for a rate case or for some other purpose. I certainly would point it out.

Q. Well, you might note that because of this relationship between Southwestern Development Company and Colorado Interstate Gas Company this transaction had taken place; that is, you might point it out where affiliations exist when you wouldn't have if that—

A. I think I would point it out in any event.

Q. Do you always in accounting examinations or audits point out transactions where stock was issued for property rather than cash?

A. I always have made it a point to do so, yes, sir.

Q. Now, this transaction would essentially have been the same, wouldn't it, if the stock had first been issued to Southwestern Development Company for two million dollars in cash and then if Colorado Interstate had paid Southwestern Development Company a cash amount of two million dollars for the privilege of having this contract executed with Canadian River Gas Company?

A. I beg your pardon. Will you read that?

(The question referred to was read by the reporter as set forth above.)

The Witness: Do you mean for the privilege of negotiating a contract, or do you mean for the contract itself?

By Mr. Dougherty:

Q. Well, for the same thing that was done here, namely, for the contract which was signed by Canadian River to sell gas under its terms.

A. I think it would be essentially the same.

Q. That is, in substance, it is really no different, whether the stock was given directly or whether it took two steps?

A. I think that is correct, yes, sir.

Q. So, don't we finally get down to this, Mr. Schutte, that your questioning of this transaction is based pretty much on your opinion that the intangible value received by Colorado Interstate was not of any substance; that is, there was no value received by Colorado Interstate when it got this contract and that, therefore, the asset has no value?

A. Well, I say, the value, if any, to be placed upon these privileges is referred to the Commission for determination.

Q. And I assume that that is because you do not consider that you are qualified as an expert to place a dollar value on the contract?

A. That is correct.

Q. And the Commission in your opinion should determine whether that contract should be in the plant account at nothing or at one dollar or two million dollars or at some place between those figures?

A. That is the general idea, yes, sir, and that refers to Southwestern Development—I mean the Canadian River Gas Company contract alone.

Q. All of my questions were about that.

A. That's correct.

Q. Now, this, I suppose could properly be termed a writedown if the Commission did put some value less than two million dollars on this contract?

A. You mean if the Commission determined a hundred dollar value as between the two million dollars, that would be a writedown?

Q. Yes.

A. Yes, a writedown as to the value shown on the books.

Q. That is a writedown just the same as the reverse process is a writeup?

A. That is correct.

Q. Now, is there any specific provision in the Code of Accounts that provides for making writedowns on the property of the company, tangible or intangible?

A. Why, yes, I think so, in connection with Account 107, Page 17, under Account No. 107, which is "Gas Plant Adjustments," under Paragraph B.: "The amounts included in this account shall be classified in such manner as to show the nature of each amount included herein and shall be disposed of as the Commission may approve or direct."

Q. It doesn't provide that the accounting company shall make any change? In setting it up, its original cost, in the first instance, whatever change is made, the Commission would have to make it?

A. That's right. In other words, the procedure generally followed, as I understand it, in connection with its original cost is that the company would submit to the Commission its reclassification of accounts. If that were found or determined to be satisfactory, an order would be issued advising the company as to how to proceed with such items as they might have classified as Gas Plant Adjustments.

If that report were not satisfactory, then if the company and the Commission could not get together on it and make it satisfactory, it would be subject to an accounting examination and a report by the staff would be issued. That report would be passed on by the Commission, and if unsatisfactory to the Commission, then I understand a formal hearing would be had and that, of course, would bring out the facts necessary to make whatever adjustments as were determined to be necessary.

Q. Now, Account 107, just as Account 100-5 contemplates that matters that are placed in those accounts have two values—if that is the proper word—at any rate, you should have an original cost and book cost of the accounting company?

A. That is right.

Q. In this case we don't have any such two costs.

A. In this case you would have book costs to the accounting company.

Q. Yes, and wouldn't it be more appropriate if you aren't going to put this two million dollar value of the contract in 303, to put it in 100-6 because all we have here is original cost to the accounting company?

A. No, I don't think so, Mr. Dougherty.

Q. Well, then—

A. Under 100-6, Note B, it says: "No charges other than as provided in Paragraph A above * * *"—which is also 100-6—" * * * shall be made to this account," and I don't think that this particular thing is applicable.

Q. Well, it says there: "There shall be closed to this account the book cost of gas plant as of the effective date hereof."

Now, what this contract would be considered is an intangible item whether it has any value or not, and therefore, if you don't put it in 100-1, wouldn't it properly be in 100-6, because you don't have an original cost and a book cost to the accounting company of original amounts, which I understand is required both by Account 107 and Account 100-5?

A. Well, it is my interpretation that it belongs in Account 107. I interpret Account 100-6 a little different than you do.

Q. Now, if the stock is issued for physical property by a company, do you enter into a questioning of the value, of the physical value it received for it when you make an accounting examination?

A. Yes, sir.

Q. How do you determine what its value is?

A. The value of the stock, or the value of the property—

Q. Property?

A. By going back to the predecessor company.

Q. And you take that, of course, as the original cost?

A. If that is original cost. That may have been acquired from a predecessor, and you would have to go back further in that case.

Q. Well, now, let's close it with a property that had never been devoted to public use, but had just been constructed—I mean—put it this way: Let's assume that part of the pipe line of Colorado Interstate having been constructed by a contractor was purchased by Colorado Interstate from the contractor, or the contractor was paid in

stock instead of dollars, and that is not an uncommon thing in pipe line construction, as a matter of fact.

A. Presumably, in the case of a shoestring operator.

Q. That's right.

A. I think I would go back to that contractor's cost.

Q. Although that contractor who built the line had not yet devoted it to public service?

A. That's right. He wouldn't have devoted it to public service presumably, but you would be trying to get the original cost of that particular property if for no other purpose than to point out the profit accruing to an affiliate because he would be an affiliate in that case if he were given stock.

Q. Now, if he had been paid cash for the property, you would accept that as the original cost to the accounting company, even though the contractor had made quite a profit out of it?

A. I think I would accept that as original cost, but I might question it or I would at least point it out if I thought he had made an *exorbitant* profit. Let me put it this way: I would compare the cost of that particular section of the line with some other comparable section, if I could, and would give those comparisons in questioning such costs.

Q. Well, then, do you consider it good accounting practice to make writedowns in the property account of companies because they have paid more than what you think they should have paid?

A. No, I wouldn't say that at all.

Q. Isn't that what you would have done?

A. I didn't say that I would have taken it out of the plant account. I said I would have questioned it.

The Trial Examiner: Would you question it, Mr. Schutte, if there was no indication to you that there was a lack of arm's length dealing between the contractor and the company?

The Witness: If there were a lack of arm's length dealing?

The Trial Examiner: Yes.

The Witness: I certainly would have questioned it in that case.

The Trial Examiner: Would you have questioned it in the reverse situation?

The Witness: If it seemed that the costs of that particular section were not comparable with some other section, I wouldn't necessarily remove it from the company's plant account. I don't mean it to that extent, but I would certainly question it and bring it to the Commission's attention, or if it weren't a rate case, to the attention of whatever responsible party that I was to report to. In other words, I don't think I would be fulfilling my duty if I permitted something which I didn't feel was justified or I thought was out of line, if I didn't point such things out to my superiors.

By Mr. Dougherty:

Q. Well, now, what I am trying to get at is the difference between that process you feel you must do in an ordinary accounting examination and where a question of rate fixing is involved. Would you do it in both instances?

A. I think so.

Q. Well, now, does that mean, then, that when you make an ordinary audit or examination of the accounts of a company that you don't accept the books as representing the factual transactions, if you can follow them through to the vouchers, but you must go into the question of whether the company was out-traded or paid more money than it should in certain instances?

A. No, I wouldn't go so far as to say that. It would depend upon the purpose that the accounting examination were being made for. Most of my accounting examinations prior to my employment by the Federal Power Commission were in connection with the purchase of property, and in that connection it was always my job to point out anything that didn't look one hundred per cent to me, for the guidance of my superiors in making their contemplated purchases.

Q. Well, you were then assisting in the determination of value?

A. In a way, yes.

Q. Yes, and certainly that was your job to do that.

A. That's right.

Q. Now, when the Colorado Interstate Gas Company first classifies its accounts in accordance with the Federal Power Commission Code it is not doing it for the purpose

of determining value, but it is doing it, is it not, to reflect the facts of the expenditures of money on its books?

A. Well, now, we are talking about two entirely different things. I agree with you that from the standpoint of Colorado Interstate Gas Company making its original classification or its classification of original cost, I don't see any objection to their putting this particular thing in Account No. 302 because it will be definitely brought to the attention of the Commission as such and the Commission shouldn't in my opinion be satisfied with the amounts there recorded and the result would be that some adjustment—possibly not adjustment, but the matter would be given the full consideration of the Commission.

Q. And they would investigate it and we would have to satisfy the Commission that the value set up on that contract was proper?

A. Was equitable.

Q. I suppose if we convinced them that it was much less than what its real value was, they wouldn't direct us to write it up, would they?

Mr. Lange: Of course, that has no bearing on this proceeding, Mr. Examiner.

Mr. Dougherty: All right, I'll withdraw it, Mr. Lange.

Q. Now, do you recognize any element of value in a contract that is based on a principle such as this where the price paid for a commodity or service or what-not is computed by including interest, the payment of debt, and interest on the remaining debt rather than merely a contract for so many cents per thousand that might represent some profit in addition to the same item?

A. Do I recognize the value for such contract?

Q. Yes.

A. From an accounting standpoint I think it would be very difficult to determine a value. That doesn't mean that there would be no value, but I wouldn't want to make such a determination.

Q. Let me give you what I think is an analogous situation: Suppose you enter into negotiations with the owner of an office building for a lease for twenty years and this man—the owner of the property and you agreed that you

would work out a lease under the terms of which you would pay the taxes, you would pay the payments required on a mortgage that he had on the building; you would pay interest on the mortgage; you would pay all maintenance, all the operating expenses, and that is all you would pay during the twenty years, year by year, and he said, "I'll make that lease with you if you will pay me a cash down consideration of \$100,000," or "X" dollars. That's more appropriate because we aren't talking about definite values.

Now, in the first instance, wouldn't such a lease have some value, namely, that you are having to pay only the things I have mentioned?

A. It might have.

Q. And whether or not that is the lump sum consideration that you might pay him, what that should be would be determined on all of the factors?

A. That's right.

Q. You know, I assume, that in many instances 99-year leases were made and then because of some change in economic conditions or rental values of property or what-not; those leases were sold for a consideration with the purchaser assuming those regular payments as the leases required?

A. That's right.

Q. Now, isn't this transaction, namely, the contract that Colorado Interstate has with Canadian River, one under which a then determined cash value, or value is placed upon the privilege of buying gas and paying for it under the terms set forth in that contract? What I have in mind, Mr. Schatte, is that in principle, isn't that the same thing, leaving out temporarily the question of whether over-value or under-value?

A. There might be some value attached to such a contract.

Q. So that at any rate the parties that were dealing on this basis apparently attached some value to it, as recorded in the books?

A. They attached a value of 42-1/2 per cent of the common stock and ten thousand shares of the preferred stock.

Q. And they measured that value by what someone else had actually paid for the stock?

A. That is what actually happened, yes.

(Vol. XLIII, pp. 5850-5885.)

Other testimony and documentary evidence is collected supra, under title "2. The Agreement between Southwestern Development Company, Cities Service Company and Standard Oil Company (N. J.) to undertake the Project of Constructing the Pipe Line from the Texas Panhandle Field to Denver."

OFFICERS AND DIRECTORS OF
CANADIAN RIVER GAS COMPANY
FROM DATE OF ORGANIZATION THROUGH DECEMBER 31, 1939

DIRECTORS: Elected March 21, 1928	Oct. 25, 1929	Subsequent Changes by Election Jan. 9, 1932	Mar. 1, 1932	Mar. 2, 1937	Status at Dec. 31, 1939
W. S. Fitzpatrick	-	-	P. C. Spencer	-	P. C. Spencer
N. K. Moody	-	-	-	-	N. K. Moody
A. R. Jones	-	-	-	-	Albert R. Jones
J. M. Parker	F. E. Jones	-	-	-	Frank E. Jones
R. W. Gallagher	-	W. E. Bryan	-	E. A. Sickels	E. A. Sickels

OFFICERS: Elected March 27, 1928	Mar. 4, 1930	Subsequent Changes by Election Jan. 7, 1931	Mar. 3, 1932	Apr. 28, 1932	Jan. 25, 1934	Mar. 1, 1938	Status at Dec. 31, 1939
President	W. S. Fitzpatrick	-	-	N. K. Moody	-	-	N. K. Moody
Vice President	x x x	x x x	N. K. Moody	P. C. Spencer	-	-	P. C. Spencer
Vice President	A. R. Jones	-	-	-	-	-	Albert R. Jones
Vice President	x x x	x x x	x x x	x x x	x x x	x x x	R. E. Werts
Treasurer	W. V. Hickman	-	-	-	George Baird	-	George Baird
Assistant Treasurer	x x x	Victor A. Iobe	-	x x x	x x x	x x x	x x x
Assistant Treasurer	x x x	x x x	L. H. Simpson	-	-	J. O. Shields	J. O. Shields
Secretary	Victor A. Iobe	-	-	-	A.W. Heineman	George Baird	George Baird
Assistant Secretary	x x x	x x x	A.W. Heineman	-	x x x	x x x	E. A. Sickels
Assistant Secretary	x x x	x x x	x x x	x x x	x x x	x x x	W. M. Wright

FEDERAL POWER COMMISSION, DOCKET NO.
EXHIBIT NO. 143 (FOR IDENTIFICATION)
DATE IDENTIFIED

FEDERAL POWER COMMISSION

Case No. 118 121 124

Exhibit No. 143

Docket G-124
Colorado Interstate Gas Co.

OFFICERS AND DIRECTORS OF
COLORADO INTERSTATE GAS COMPANY
FROM DATE OF ORGANIZATION THROUGH DECEMBER 31, 1939

DIRECTORS: Elected June 8, 1927	Subsequent Changes by Election					
	June 5, 1928	Sept. 27, 1928	May 16, 1929	May 3, 1932	July 12, 1933	May 1, 1934
W. S. Fitzpatrick, Chairman	-	-	-	N. K. Moody	-	-
A. R. Jones	-	-	-	-	-	-
R. W. Gallagher	-	-	-	-	-	F. H. Lerch, Jr
H. C. Cooper	N. K. Moody	-	-	P. C. Spencer	-	-
E. S. Hall	-	W. A. Jones	-	-	-	W.A. Dougherty
Christy Payne	-	-	-	-	H. C. Cooper	-
J. B. Luse	-	-	H. A. Koechling	-	-	H. O. Caster

OFFICERS: Elected June 8, 1927	Subsequent Changes by Election					
	May 16, 1929	Oct. 10, 1932	July 12, 1933	June 22, 1934	Feb. 23, 1939	
President	Christy Payne	-	R.W. Gallagher	H.C. Cooper	F.H. Lerch, Jr.	
Vice President	A. R. Jones	-	-	-	-	
Vice President	R. W. Gallagher	-	H.C. Cooper	F.H. Lerch, Jr.	W.A. Dougherty	
Treasurer	J. B. Luse	H.A. Koechling	-	F.H. Lerch, Jr.	Jas. Comerford	
Assistant Treasurer	H. A. Koechling	Jas. Comerford	-	-	-	
Assistant Treasurer	-	L.H. Simpson	J.O. Shields	-	-	
Secretary	E. E. Duvall	-	-	-	-	
Assistant Secretary	H. A. Koechling	Jas. Comerford	-	-	-	

Exhibit No. 143

OFFICERS AND DIRECTORS OF
COLORADO INTERSTATE GAS COMPANY
FROM DATE OF ORGANIZATION THROUGH DECEMBER 31, 1939

Subsequent Changes by Election							Status at
<u>Sept. 27, 1928</u>	<u>May 16, 1929</u>	<u>May 3, 1932</u>	<u>July 12, 1933</u>	<u>May 1, 1934</u>	<u>May 5, 1936</u>	<u>May 12, 1939</u>	<u>Dec. 31, 1939</u>
-	-	M. K. Moody	-	-	-	-	M. K. Moody, Chairman
-	-	-	-	-	-	-	A. R. Jones
-	-	-	-	F. H. Lerch, Jr.	-	-	F. H. Lerch, Jr.
-	-	P. C. Spencer	-	-	-	-	P. C. Spencer
W. A. Jones	-	-	-	W. A. Dougherty	-	-	W. A. Dougherty
-	-	-	H. C. Cooper	-	-	E. E. Duvall	E. E. Duvall
-	H. A. Koechling	-	-	H. O. Castor	Chas. Frueauff	-	Chas. Frueauff

Subsequent Changes by Election					Status at
<u>May 16, 1929</u>	<u>Oct. 10, 1932</u>	<u>July 12, 1933</u>	<u>June 22, 1934</u>	<u>Feb. 23, 1939</u>	<u>Dec. 31, 1939</u>
-	-	R. W. Gallagher	H. C. Cooper	F. H. Lerch, Jr.	F. H. Lerch, Jr.
-	-	-	-	-	A. R. Jones
-	-	H. C. Cooper	F. H. Lerch, Jr.	W. A. Dougherty	W. A. Dougherty
H. A. Koechling	-	-	F. H. Lerch, Jr.	Jas. Comerford	Jas. Comerford
Jas. Comerford	-	-	-	-	-
L. H. Simpson	J. O. Shields	-	-	-	J. O. Shields
-	-	-	-	-	E. E. Duvall
Jas. Comerford	-	-	-	-	Jas. Comerford

SUMMARY OF COMMON OFFICERS AND DIRECTORS DURING THE YEARS 1927 AND 1928, BETWEEN CANADIAN RIVER GAS COMPANY, COLORADO INTERSTATE GAS COMPANY
AND
CERTAIN OTHER COMPANIES SHOWN ON THE CORPORATE CHART

Name of Officers and Directors	Canadian River Gas Company	Colorado Interstate Gas Company	Colo.-Wyoming Gas Company	Amarillo Oil Company	Southwestern Development Company	Amarillo Gas Company	Clayton Gas Company	Belhart Gas Company	Panhandle Pipe Line Company	West Texas Gas Company	The Mission Oil Company
W. S. Fitzpatrick	Pres. & Dir.	Chrm. of Bd.	-	-	Director	-	-	-	-	-	-
H. L. Hoody	Director	(1) Director	-	Pres. & Dir.	Pres. & Dir.	-	-	-	-	(2) Pres. & Dir.	-
A. R. Jones	V.P. & Dir.	V.P. & Dir.	-	V.P. & Dir.	V.P. & Dir.	-	-	-	-	-	Chrm. of Bd.
J. M. Parker	Director	-	-	-	Director	Director	-	-	-	-	V.P. & Dir.
H. W. Gallagher	Director	V.P. & Dir.	-	-	-	-	-	-	-	-	-
W. V. Hickman	Treasurer	-	-	-	Asst. Off.	-	-	-	-	-	-
W. A. Jones	-	-	-	-	-	-	-	-	-	-	-
(W. Alton Jones)	-	(3) Director	-	-	-	-	-	-	-	-	-
Christy Payne	-	Pres. & Dir.	-	-	-	-	-	-	-	-	(4)
H. L. Doherty	-	-	Pres. & Dir.	-	-	-	-	-	-	-	-
F. R. Coates	-	-	-	-	-	-	-	-	-	-	-
(Frank R. Coates)	-	-	V.P. & Dir.	-	-	-	-	-	-	-	-
E. E. McWhiney	-	-	Asst. Off.	-	-	-	-	-	-	-	-
C. B. Wedum	-	-	Asst. Off.	-	-	-	-	-	-	-	-
L. F. Musil	-	-	Treasurer	-	-	-	-	-	-	-	-
T. A. Wallace	-	-	-	-	-	-	-	-	-	-	-
(Thomas A. Wallace)	-	-	Asst. Off.	-	-	-	-	-	-	-	-
Dana H. Kelsey	-	-	-	Director	Director	-	-	-	-	-	(7) Asst. Off. Dir.
E. W. Goebel	-	-	-	Director	-	-	-	-	-	-	-
A. E. Hookins	-	-	-	Sec. & Treas.	Sec. & Treas.	-	-	-	-	(8) Sec. & Treas.	Pres. & Dir.
Frank E. Jones	-	-	-	-	Director	-	-	-	-	-	-
Barry M. Brown	-	-	-	-	-	-	-	-	Pres. & Dir.	-	-
(H. M. Brown)	-	-	-	-	-	V.P. & Dir.	-	-	Asst. Off.	-	-
M. F. Illiff	-	-	-	-	-	(10) Director	-	(9) Director	-	-	(11) Asst. Off.
Wayne V. Jones	-	-	-	-	-	(12) Director	-	-	-	(13) Director	(14) Asst. Off.
V. A. Hays	-	-	-	-	-	-	Pres. & Dir.	-	-	(15) Director	-
E. A. Meyer	-	-	-	-	-	-	V.P. & Dir.	Pres. & Dir.	V.P. & Dir.	-	-
E. A. Sickle	-	-	-	-	-	-	Sec. Treas. Dir.	(16) V.P. & Dir.	-	-	-
C. W. Smith	-	-	-	-	-	-	Manager	(7) Treas. Sec. Dir.	-	-	-
E. F. Hinchey	-	-	-	-	-	-	-	(18) Director	-	-	-
E. M. Jones	-	-	-	-	-	-	-	-	Director	(19) V.P. & Dir.	(20) Sec. & Dir.
E. A. Taylor	-	-	-	-	-	-	-	-	-	(21) Director	(22) Secretary
C. T. White	-	-	-	-	-	-	-	-	-	-	-
Thomas I. Carter	-	-	-	-	-	-	-	-	-	-	-
Warren W. Foster	-	-	-	-	-	-	-	-	-	-	-
Ernest H. Johnston	-	-	-	-	-	-	-	-	-	-	-
Paul R. Jones	-	-	-	-	-	-	-	-	-	-	-
John M. McMillin	-	-	-	-	-	-	-	-	-	-	-
Chas. A. Pruesuff	-	-	-	-	-	-	-	-	-	-	-
E. W. Rollins	-	-	-	-	-	-	-	-	-	-	-
Clare N. Stagnard	-	-	-	-	-	-	-	-	-	-	-

Notes: (1) From 6/5/28
(2) " 5/28/27
(3) " 9/27/28

(4) From 6/15/27
(5) " 11/20/28
(6) " 6/7/27

(7) Asst. Off. to 3/8/27
(8) From 5/31/27
(9) To 3/9/28

(10) To 5/10/27
(11) To 3/8/27
(12) From 5/10/27

(13) From 5/31/27
(14) " 3/8/27
(15) " 5/28/27

(16) From 3/9/28
(17) " 3/9/28
(18) To 3/9/28

(19) Director from 5/28/27
(19) V.P. from 3/9/28
(20) Secretary to 3/8/27

20. The Equivalent Original Cost of Colorado Interstate's
Portion of the Physical Properties of an Assumed Den-
ver Line Used and Useful for the Transmission of Re-
sale Gas Only, to December 31, 1939, and Estimated
Additional Cost, 1940 to 1947, Inclusive.

A description of the Denver Line for resale gas only was given in Exhibit 98, Witness Rhodes, and in this same Exhibit is shown the additional compressor station facilities that would be required up to December 31, 1943, which has already been abstracted *supra* under the heading, "Description of the facilities of an assumed Denver Line used and useful in the transmission of resale gas only." As there shown, the method employed was to reduce the main line from Rivins Station to the Arkansas River from a 20" line to a 20" line, and eliminate all laterals and metering stations not needed for resale gas, and to reduce the number and size of certain river crossings.

Exhibit 134, Witness Lusk (Vol. XXXI, p. 4269), shows the equivalent original cost of such a line. This was accomplished by taking the original cost of the line as actually built, and making adjustments on account of the different facilities required. Deductions on account of reduced size of pipe were made to reflect the lower prices actually paid for materials of the reduced size when the system was constructed. Deductions in the contract cost of laying the lines and in the miscellaneous costs were made in proportion to the reduction in the diameter of the pipe. In the case of river crossings, with reduced number of lines or reduced diameter of pipe, reductions in the original cost were made proportionate to the reduction in the number of lines or the diameter of the pipe. Deductions for laterals and other facilities used solely for direct sale of gas were made (p. 4270) at the original cost of such facilities, as shown by the books.

The costs of the additional compressor station facilities shown in Exhibit 98 to be required for the resale line up to December 31, 1943, were determined largely by the original cost of the initial Alhambra compressor station as completed early in 1940. (p. 4271).

Q. Do you know whether or not Colorado Interstate Gas

Company or Cities Service Company owned any stock in

that company at that time?

A. I do not.

Q. Do you know whether or not Consolidated Oil Cor-

poration owned any stock in Colorado Fuel & Iron at that

time?

Mr. March: I object to that question because Consoli-

dated Oil Corporation was reorganized at that time, as I

understand it.

Mr. Campbell: The witness can answer yes or no, can't

he?

The Trial Examiner: The objection is overruled.

The Witness: I was about to make the same statement

that Mr. March did. I don't know.

(Vol. XXVII, pp. 5033-5042.)

Q. Now, do you know how much stock Standard Oil (N.

J.) owned in Consolidated Oil Corporation, Southwestern

Development Company, Canadian River Gas Company,

Public Service Company of Colorado or Cities Service

Company as of either November 5th, 1927 or June 1st, 1928?

A. I do not.

Q. It has already been testified here that Standard Oil

(N. J.) acquired 42 1/2 per cent of the common stock of

Colorado Interstate Gas Company as soon as the last named

company was formed?

A. Yes, sir.

(Vol. XXVII, pp. 5043-5044.)

Q. What stock ownership did Standard Oil (N. J.) have

in Colorado Interstate Gas Company as of either of the

dates November 5, 1927 or June 1, 1928?

A. As a matter of fact, they didn't actually get their

stock until after June 5, 1928, but they got 42 1/2 per cent

of the common stock of Colorado Interstate Gas Company,

and that was 531,250 shares, and they also acquired 10,000

shares or fifty per cent of the six per cent \$100 par pre-

ferred capital stock of Colorado Interstate Gas Company.

(Vol. XXVII, p. 5045.)

Q. Do you know how those directors of either of those two companies; namely, Canadian River Gas Company and Colorado Interstate Gas Company, voted on that agreement of—sales agreement of January 3rd, 1928?

A. No, I do not.

Q. Now, Mr. Schutte, about that same time there was a similar sales agreement for sales of gas entered into between Colorado Interstate Gas Company and Public Service Company of Colorado. Do you know who the directors of Public Service Company of Colorado were at that time?

A. W. A. Jones, H. L. Doherty, Clare N. Stannard, E. W. Rollins, Thomas I. Carter.

Q. Do you know how many other directors there might have been on that date?

A. I do not.

Q. You don't know how any of those directors voted on that agreement?

A. No, sir.

Mr. Campbell: That agreement, by the way, is described in Exhibit 2, for the purpose of the record.

The Trial Examiner: It is in the record, Mr. Campbell.

Mr. Campbell: Yes.

Q. Now, about that same time; that is, January 3rd, 1928, a sales agreement was entered into between Colorado Interstate Gas Company and the Colorado Fuel & Iron Corporation for the sale of industrial gas. That is described in Exhibit 9 in this case. Do you know who the directors of Colorado Fuel & Iron were on or about that same time?

A. No, sir.

Q. Do you know whether at that time Standard Oil (N. J.) owned any stock in Colorado Fuel & Iron?

A. I don't have that information, no, sir.

Q. Do you know whether or not at that time Southwestern Development Company owned any stock in the Colorado Fuel & Iron?

A. I do not.

Q. Do you know whether or not at that time Canadian River Gas Company at that time owned any stock in Colorado Fuel & Iron?

A. I do not.

The Witness: M-u-s-i-l.

—Thomas I. Carter, Warren W. Foster, Ernest H. Jones,
Paul R. Rollins, John M. McMillin, Charles A. Frueauff,
E. W. Rollins.

By Mr. Campbell:

Q. Do you know how many other directors there were
on that date?

A. I don't know whether there were any other directors,
but these have common directorates in other companies.

Q. Very well. Now, do you know how any of those
directors that you have named of Southwestern Develop-

ment Company voted on this agreement of April 5th, 1927?

A. I do not.

Q. Do you know how any of the directors of Cities
Service Company that you have named voted on that same

agreement?

A. No, sir.

Q. Now, Mr. Schulte, there was introduced in evidence
in this case as Exhibit No. 16 a gas sales agreement dated

January 3rd, 1928 between Canadian River Gas Company
and Colorado Interstate Gas Company. Who were the di-

rectors of Canadian River Gas Company on that date?

A. That is also shown in Exhibit 143 at Page 3. (Can-
adian River Gas Company: W. S. Fitzpatrick was Presi-

dent and Director; N. K. Moody, Director; A. R. Jones,
Vice President and Director; J. M. Parker, Director; R. W.

Gallagher, Director.

Q. How many other directors were there on that date?
A. I couldn't tell you that at the moment because these

are the only ones that—

Q. Very well, if you don't know, just say so.
All right, who were the directors of Colorado Interstate

Gas Company on that same date?

A. W. S. Fitzpatrick, Chairman of the Board; N. K.
Moody was Director commencing June 5th, 1928; A. R.

Jones was Vice President and Director; R. W. Gallagher
was Vice President and Director; Christy Payne was Presi-

dent and Director; and I show W. A. Jones as Director com-
mencing in September of 1928.

Q. Do you know whether there were any other directors
on that date other than those you have named?

A. I do not.

The Witness: Yes, I recall the question but I don't have the information available as to the holdings Standard Oil may have had in Southwestern Development Company or Cities Service Company as of April 5th, 1927.

By Mr. Campbell:

Q. Very well, sir. Now, what stock did Southwestern Development Company own in Standard Oil (N. J.) as of April 5th, 1927?

A. I don't have that information available either.

Q. Very well, sir. Now, what did Cities Service Company own on or about April 5th, 1927 of Standard Oil (N. J.) stock?

A. I don't have that information available.

Q. Who were the directors of the Standard Oil (N. J.) on April 5th, 1927?

A. I don't have all of them, but several of them are shown on Page 3 of Exhibit 143.

Q. Name them, please.

A. Christy Payne. That's the only one I show here as a director.

Q. That is, of Standard Oil (N. J.)?

A. Standard Oil Company, New Jersey paren, yes, sir.

Q. Do you know how many other directors there were of Standard Oil (N. J.) on that date?

A. I don't have that information available just at the moment.

Q. All right, who were the directors of Southwestern Development Company on that date?

A. W. S. Fitzpatrick, H. K. Moody, A. R. Jones, J. M. Parker, Dana Kelsey, Frank E. Jones.

Q. Very well, who were the directors of Cities Service Company on that same date—pardon me, just a minute. Did you name all of the directors of Southwestern Development Company on that date?

A. I don't know that they are all of them. These are the ones that were interested in some of the other companies also.

Q. Very well, now, who are the directors of Cities Service Company as of that date?

A. W. A. Jones, H. L. Doherty, E. E. McWhiney, L. F. Musil—

The Trial Examiner: How do you spell that?

Q. Mr. Schutte, that was introduced in evidence in this case as Exhibit 1, a memorandum of stipulations between the Standard Oil Company (N. J.) and Southwestern Development Company and Cities Service Company, and that was dated April 5th, 1927. Now, how much stock did Standard Oil (N. J.) own in either Southwestern Development Company or Cities Service Company on that date?

Mr. March: I object to that question because this exhibit, if it please the Examiner, does not purport to show anything other than the dates indicated here. Now, we probably have another exhibit which will show the relationship as of that date. This purports to show the relationship as of December 31, 1939 and the other dates as indicated here. I don't object to asking any questions involving the exhibit here itself.

The Trial Examiner: Mr. Schutte made an investigation of this matter in which these two exhibits are involved and, of course, necessarily would come across certain information. Now, if Commission's counsel is going to put that in in a later exhibit, perhaps it might—

Mr. March: I think it is already in evidence that the Rockefeller interests holdings in Standard Oil were substantial at that date.

Mr. Campbell: If it please the Examiner, Mr. March is off track. I am not inquiring at this time about the so-called Rockefeller interests. In fact, I wouldn't be able to make an intelligent inquiry about that. I haven't yet discovered what he means by the Rockefeller interests. I am talking about Standard Oil (N. J.), Southwestern Development Company and Cities Service Company, as of April 5th, 1927.

Now, if the Examiner please, if the Commission is going to supplement Exhibits 141, 142 and 143 with other exhibits, why, I would like to defer cross examination until those other related exhibits are here.

Mr. March: I have no objection to that examination in spite of the fact that is going on. It is already in evidence.

The Trial Examiner: Do you recall the question, Mr. Schutte?

A. The pages are not numbered.

Mr. Lange: Is that George MacDonald?

The Witness: I believe that is the name. I will follow him across.

Mr. Campbell: Which page are you on?

The Witness: The next to the last page.

Mr. Lange: It is the third from the last page, Mr. Schutte.

The Witness: That is George MacDonald. You are right, Mr. Lange. It is the second from the last page—the third from the last page.

Mr. Lange: I think, Mr. Schutte, for the sake of certainty about it, why not number every one of these pages in the whole exhibit and then they can be easily referred to?

Mr. Campbell: You mean number the pages?

Mr. Lange: Yes.

Mr. March: You are numbering the pages consecutively?

The Witness: I am numbering the pages consecutively.

Mr. Brock: Starting with the first statement?

The Witness: Starting with the first statement, and not including the index. That gives me seven pages.

Page 3 is the summary of the common officers and directors during the years 1927 and '28, between Canadian River Gas Company, Colorado Interstate Gas Company, Colorado-Wyoming Gas Company, and certain other companies shown on the corporate chart.

Pages 4 and 5 cover the summary of common officers and directors during the year 1931 between Canadian River Gas Company, Colorado Interstate Gas Company, Colorado-Wyoming Gas Company, and certain other companies shown on the corporate chart; and Pages 6 and 7 cover the summary of common officers and directors during the year 1939 between Canadian River Gas Company, Colorado Interstate Gas Company, Colorado-Wyoming Gas Company, and certain other companies shown on the corporate chart.

panies as shown on the corporate chart. Now, in here I have endeavored to show the parties holding common directorates in the various companies, and it likewise indicates the offices held, and that is during the years 1927 and 1928. Q. All of those companies there are shown on the corporate chart?

A. Yes, sir, every one of them except, I believe, the Pueblo Gas & Fuel Company, which I don't think is on the chart because that—

Q. It is not on the chart?

A. No.

Q. All right. That is the only one, isn't it?

A. That is right. That is the only one.

The next page is a summary of the common officers and directors during the year 1931 between Canadian River Gas Company, Colorado Interstate Gas Company, Colorado Wyoming Gas Company, and certain other companies as shown on the corporate chart, and that also shows Pueblo Gas & Fuel Company which is not on the chart. All the others are.

Q. I notice there you have the Sinclair-Consolidated Oil Corporation. That is on one of those schedules there. That is not on the chart. That is some predecessor company, isn't it?

A. As a matter of fact, I don't have any names in there either.

Q. You don't have any names under there at all?

A. No.

Q. On any of your schedules?

A. That is right, and the last two pages covered the summary of the common officers and directors during the year—wait a minute. I will have to go back there.

For the year 1931 I do have one name under Sinclair Consolidated Oil Corporation.

Q. Is that one of the companies that were merged into Consolidated Oil Corporation?

A. Yes, sir.

Q. It is a predecessor of Consolidated Oil Corporation? A. That is right. That page belongs with the 1931. In other words, these two pages go together.

Q. Which two pages are you referring to?

[Testimony of Witness SCHUTTE.]

Q. Mr. Schutte, I hand you a document entitled "Officers and Directors of Canadian River Gas Company, Summary of Common Officers and Directors—Years 1927 and 1928; Summary of Common Officers and Directors—Year 1931; Summary of Common Officers and Directors—Year 1939."

A. I hand you this document and I will ask you what it is and I will ask you to go through it, going through the few schedules in the document and stating just exactly what the nature is of the schedules?

A. This is a schedule of officers and directors of the Canadian River Gas Company and the Colorado Interstate Gas Company and certain other companies for the various years shown by the index, which was prepared under my supervision.

Mr. March: I will ask that the document be marked for identification.

The Trial Examiner: It will be marked for identification as Exhibit No. 143.

(Exhibit 143, Witness Schutte, marked for identification.)
By Mr. March:

Q. I don't think your explanation was quite full enough, Mr. Schutte. Will you go through each of the schedules here, stating exactly what you have in them?

A. On the first page we show the officers and directors of Canadian River Gas Company from the date of organization through December 31st, 1939. It shows the changes in officers and directors and the dates of such changes and the status as of December 31st, 1939.

The second page is a summary of the officers and directors of the Colorado Interstate Gas Company as of the date of organization through December 31st, 1939, and it likewise shows all of the changes and the dates of the changes, and the status on December 31st, 1939.

The next page is a summary of the common officers and directors during the years 1927 and 1928, between Canadian River Gas Company, Colorado Interstate Gas Company, Colorado-Wyoming Gas Company, and certain other com-

[illegible]

CONTAINS OTHER COMPANY'S MARKS OR THE COMPANY'S NAME

No.	Name	Title	Company
1	J. J. Jones	V.P. & Dir.	Director
2	E. Jones	Pres. & Dir.	Director
3	R. Jones	Dir.	Director
4	S. Jones	Asst. Dir.	Director
5	T. Jones	Asst. Dir.	Director
6	U. Jones	Asst. Dir.	Director
7	V. Jones	Asst. Dir.	Director
8	W. Jones	Asst. Dir.	Director
9	X. Jones	Asst. Dir.	Director
10	Y. Jones	Asst. Dir.	Director
11	Z. Jones	Asst. Dir.	Director
12	A. Jones	Asst. Dir.	Director
13	B. Jones	Asst. Dir.	Director
14	C. Jones	Asst. Dir.	Director
15	D. Jones	Asst. Dir.	Director
16	E. Jones	Asst. Dir.	Director
17	F. Jones	Asst. Dir.	Director
18	G. Jones	Asst. Dir.	Director
19	H. Jones	Asst. Dir.	Director
20	I. Jones	Asst. Dir.	Director
21	J. Jones	Asst. Dir.	Director
22	K. Jones	Asst. Dir.	Director
23	L. Jones	Asst. Dir.	Director
24	M. Jones	Asst. Dir.	Director
25	N. Jones	Asst. Dir.	Director
26	O. Jones	Asst. Dir.	Director
27	P. Jones	Asst. Dir.	Director
28	Q. Jones	Asst. Dir.	Director
29	R. Jones	Asst. Dir.	Director
30	S. Jones	Asst. Dir.	Director
31	T. Jones	Asst. Dir.	Director
32	U. Jones	Asst. Dir.	Director
33	V. Jones	Asst. Dir.	Director
34	W. Jones	Asst. Dir.	Director
35	X. Jones	Asst. Dir.	Director
36	Y. Jones	Asst. Dir.	Director
37	Z. Jones	Asst. Dir.	Director
38	A. Jones	Asst. Dir.	Director
39	B. Jones	Asst. Dir.	Director
40	C. Jones	Asst. Dir.	Director
41	D. Jones	Asst. Dir.	Director
42	E. Jones	Asst. Dir.	Director
43	F. Jones	Asst. Dir.	Director
44	G. Jones	Asst. Dir.	Director
45	H. Jones	Asst. Dir.	Director
46	I. Jones	Asst. Dir.	Director
47	J. Jones	Asst. Dir.	Director
48	K. Jones	Asst. Dir.	Director
49	L. Jones	Asst. Dir.	Director
50	M. Jones	Asst. Dir.	Director
51	N. Jones	Asst. Dir.	Director
52	O. Jones	Asst. Dir.	Director
53	P. Jones	Asst. Dir.	Director
54	Q. Jones	Asst. Dir.	Director
55	R. Jones	Asst. Dir.	Director
56	S. Jones	Asst. Dir.	Director
57	T. Jones	Asst. Dir.	Director
58	U. Jones	Asst. Dir.	Director
59	V. Jones	Asst. Dir.	Director
60	W. Jones	Asst. Dir.	Director
61	X. Jones	Asst. Dir.	Director
62	Y. Jones	Asst. Dir.	Director
63	Z. Jones	Asst. Dir.	Director
64	A. Jones	Asst. Dir.	Director
65	B. Jones	Asst. Dir.	Director
66	C. Jones	Asst. Dir.	Director
67	D. Jones	Asst. Dir.	Director
68	E. Jones	Asst. Dir.	Director
69	F. Jones	Asst. Dir.	Director
70	G. Jones	Asst. Dir.	Director
71	H. Jones	Asst. Dir.	Director
72	I. Jones	Asst. Dir.	Director
73	J. Jones	Asst. Dir.	Director
74	K. Jones	Asst. Dir.	Director
75	L. Jones	Asst. Dir.	Director
76	M. Jones	Asst. Dir.	Director
77	N. Jones	Asst. Dir.	Director
78	O. Jones	Asst. Dir.	Director
79	P. Jones	Asst. Dir.	Director
80	Q. Jones	Asst. Dir.	Director
81	R. Jones	Asst. Dir.	Director
82	S. Jones	Asst. Dir.	Director
83	T. Jones	Asst. Dir.	Director
84	U. Jones	Asst. Dir.	Director
85	V. Jones	Asst. Dir.	Director
86	W. Jones	Asst. Dir.	Director
87	X. Jones	Asst. Dir.	Director
88	Y. Jones	Asst. Dir.	Director
89	Z. Jones	Asst. Dir.	Director
90	A. Jones	Asst. Dir.	Director
91	B. Jones	Asst. Dir.	Director
92	C. Jones	Asst. Dir.	Director
93	D. Jones	Asst. Dir.	Director
94	E. Jones	Asst. Dir.	Director
95	F. Jones	Asst. Dir.	Director
96	G. Jones	Asst. Dir.	Director
97	H. Jones	Asst. Dir.	Director
98	I. Jones	Asst. Dir.	Director
99	J. Jones	Asst. Dir.	Director
100	K. Jones	Asst. Dir.	Director

The final result, or equivalent original cost of a Denver pipe line for resale gas alone, is shown separately as between the portion thereof owned by Canadian and Colorado Interstate. The equivalent cost of Canadian's portion is shown on Statement 1, Part 1, as of December 31, 1939, as \$3,933,234; and on Statement 1, Part 2, it is shown year by year, 1940 to 1947 inclusive. For 1940 and 1941 it is \$3,966,644; for 1942 it is \$4,095,644, and for each of the years 1943 to 1947 inclusive it is \$4,307,737. For Colorado Interstate's portion this is shown year by year by accounts from 1928 to 1939 on Statement 2, Part 1, attached to Exhibit 134, and as of December 31, 1939, it is \$11,412,163 and in Part 2 of Statement 2 it is shown year by year through 1947. For the years 1940 and 1941 the figure is the same as for 1939, and from 1942 to 1947 inclusive it is \$11,637,163.

[Testimony of WILLIAM A. LUSK.]

Q. Now, in this Exhibit 134 you have also made certain calculations with reference to amounts applicable to the construction of a proposed 20-inch line on the items of adjustment to general construction costs applicable to net property additions on Statement 1. Of what item is that a part?

A. That is a part of the same line number in Exhibit 67, adjustment for general construction costs applicable to net property additions in Line 7 of Exhibit 134 and Line 9 in Exhibit 67.

Q. Of what statement?

A. Statement 2—pardon me. Statement 1. It is Line 7. They are corresponding lines.

Q. All of these three exhibits, 67, 133 and 134, have been lined up to match all through because they all deal with property, and the description and the headings are all the same?

A. At least I have tried to have them made that way so there would not be any confusion.

Q. I see. And these adjusted amounts under those same descriptive items constitute a part of the items that were challenged by Commission's counsel in your Exhibit 67?

A. That is right.

Q. Mr. Lusk, this Exhibit 134 is predicated, of course, on a prior assumption made by Mr. Rhodes in Exhibit 98 in so far as the matter of projecting a proposed entire 20-inch line is concerned?

A. That is correct, yes, sir.

Q. And you have assumed at the outset that that is what would be done and then made your calculations accordingly?

A. That is correct, yes, sir.

Q. And, of course, a 20-inch line the entire distance of this line doesn't, in fact, exist at present?

A. No, sir, it does not.

(Vol. XL1, p. 4285.)

21. Reproduction Cost New, and Less Depreciation, of Colorado Interstate's Portion of the Denver Line as of December 31, 1938, and as Estimated to June 30, 1940.

The witness Rhodes, who as chief engineer of FB&D, personally checked each item of the design and participated in the construction of the line and in its operation for a time, as the evidence already abstracted shows, gave in his Exhibit 70 his estimate of the cost of reproduction new and less depreciation as of December 31, 1938, of Colorado Interstate's portion of that line (Vol. XII, p. 1710). The line reproduced in Exhibit 70 is as it was originally designed by him and as it now exists. His summary by accounts of the cost to reproduce and less depreciation of the line is set forth as follows on page 32 of Exhibit 70:

Colorado Interstate Gas Company
 Reproduction Costs New and Less Depreciation of Denver Pipe
 Line Properties as of December 31, 1938.

Summary by Accounts.

Acct. F.P.C. No.	Description	Reproduction		Accumulated Depreciation	Condi- tion of Prop- erties (Per Cent)	Reproduction Cost. New Less Depreciation
		Cost New	Per Cent			
Natural Gas Transmission Plant						
351-1	Land	\$ 17,613	0.0		100.0	\$ 17,613
351-2	Land Rights (Rights of Way)	177,497	0.0		100.0	177,497
352-1	Pumping Station Structures	477,882	14.0	\$ 66,903	86.0	410,979
352-2	Measuring and Regulating Station Structures	77,812	13.0	10,116	87.0	67,696
352-3	Other Transmission System Structures	209,536	13.0	27,240	87.0	182,296
353	Mains	7,891,490	5.0	394,574	95.0	7,496,916
354-1	Pumping Station Equipment	1,041,761	12.0	125,611	88.0	916,150
354-2	Measuring and Regulating Station Equipment	81,692	10.0	8,169	90.0	73,523
	Total Transmission Plant	\$ 9,975,283		\$ 632,613		\$ 9,342,670

General Plant						
372 Office Furniture and Equipment	28,679	20.0	#	5,736	80.0	# 22,943
373 Transportation Equipment	63,382	49.0		31,057	51.0	# 32,325
377 Tools and Work Equipment	34,686	20.0		6,937	80.0	# 27,749
378 Communication Equipment	152,923	16.0		24,468	84.0	# 128,455
Total General Plant	\$ 279,670		#	\$ 68,198		\$ 211,472
Total of Above	\$ 10,254,953		#	\$ 700,211		# 9,554,742
Undistributed Construction Costs	\$ 1,895,320		#	\$ 64,706		# 1,830,614
Working Capital	120,000				100.0	120,000
Total Natural Gas Transmission and						
General Plant (Exclusive of going	\$ 12,270,273		#	\$ 764,917		# 11,505,356
concern costs or value)						

Records were made as to the general character, extent and severity of corrosion and of the principal conditions affecting corrosion in that location. The depth of many deepest pits were measured and recorded; generally 30 on each 24-inch section. This number was chosen as necessary to insure a dependable knowledge of the depths of the deepest pits. Special care was exercised in measuring these pits to clean them out thoroughly at the bottom thus insuring a full measure of depth.

"The depreciation suffered by the pipe lines was determined from a consideration of the field inspections above described. The records of the field work were tabulated and summarized. They were subjected to study and analysis both scientific and practical. Consideration was given to the many factors affecting depreciation through corrosion which are described in the succeeding paragraphs.

"Renewals of pipe are most commonly the result of a troublesome succession of leaks caused by corrosion. As leaks occur they are stopped by bolting band clamps around the pipe with a rubber backing over the leaks. Sometimes two or more leaks develop at widely separated dates in the same joint of pipe. The development of leaks first occurs in stretches of lines where for various reasons local conditions are favorable to corrosion. These are called 'hot spots' and range from a few joints to thousands of feet in length. When the leaks occur with troublesome frequency not only is the pipe in the 'hot spot' itself removed but also pipe for an appropriate distance on either side. In practice the worst joints of pipe may have two or more leaks. Stretches of pipe 100 feet long may contain five to ten leaks and other stretches may have no leaks at all. Some pipe is suitable for reuse with a simple cleaning operation, some pipe requires welding up the pits before it can be reused, and other pipe is reduced to junk.

"The progress of corrosion has universally been found to fall off with age. When pipe is first buried it starts to corrode rapidly. As time goes on the intensity of corrosion slows down. Not enough inspections were made of the company's lines nor was there enough range in age to permit a field determination of the extent to which this corrosion slows down. However, the United States Bureau of

Standards has investigated this characteristic of slowing down in corrosion as related to 47 soils scattered throughout the country. There were only 6 soils found in which the depth of pits increased more than 50 per cent through doubling the age and these soils are decidedly unusual in their characteristics. In soils characteristic of Colorado Interstate's territory the increased depth with doubling the age was much less than 50 per cent. Accordingly it was considered in determining the depreciation accumulated in the company's pipe lines that corrosion would slow down to such an extent that doubling the age would result in not more than a 50 per cent increase in the depth of pits.

"It is also the universal experience that the greater the lengths of pipe examined on inspection, the greater will be the average depths of the deepest pits found. A study of the relative depths of the deepest pits in the 24-inch sections was made, from which was determined by scientific analysis the average depths that could be expected in greater lengths of the company's pipe of 10, 20, 40 or 50 feet, as the case may be. This study also determined the number of pits required to be welded in reconditioning.

"Through a correlation and application to the field inspections of the rules of corrosion outlined above by the proper use of engineering methods, it was determined that Colorado Interstate's pipe lines had depreciated 5 per cent.

(Vol. XII, pp. 1726-1730.)

"The wear and tear and other depreciation that had developed in the compressor station equipment was determined from the detailed field inspection of all of the main units and a more general but complete inspection of the many units of auxiliary and miscellaneous equipment. Particular attention was given to the wearing parts such as power and compressor cylinder assemblies, valves and valve gear, and like parts. The condition of each important wearing part was determined and recorded in the field. The field reports were summarized, analyzed and studied and determinations made of the overall physical condition of the equipment in each compressor station. In determining the condition of this equipment, consideration was given to the fact that the greater part of the cost of the equip-

ment is in non-wearing parts which are subject to replacement only as the result of an accident.

"It was not reasonably possible to inspect in detail buried equipment such as foundations, piping, and so forth, and such equipment in each station related directly to each unit, was rated at the average condition of all of the equipment inspected in that station. The yard piping in the station, however, was inspected in the same manner as pipe lines and the condition so found was adjusted to reflect the high percentage of fittings less subject to depreciation than pipe.

"The observed depreciation accumulated in the equipment in the station was determined by a consideration of the factors outlined above. It was found that in the aggregate the Colorado Interstate's compressor station equipment had depreciated 12 per cent.

(Vol. XII, pp. 1730-1731.)

"The depreciation existing in the minor property accounts was in general determined by observation as in the major accounts, in detail appropriate to the importance of the respective accounts.

(Vol. XII, p. 1732.)

"The depreciation determined as having accumulated in Colorado Interstate's property is based on the system as a continuing property without important change except as to extensions. Items of equipment retired in such a property in the natural gas business are commonly replaced in kind and accordingly only a portion of the undistributed construction cost depreciates with the property itself. The replacement of that property involves little or no engineering cost, little interest and little or no cost of financing. Portions of the property, however, that are retired and replaced with property of a different type, which occasionally takes place, involve a repetition of most of the undistributed construction costs. All things considered, one-half of the total amount of undistributed construction costs is appropriately considered as depreciating with the property.

(Vol. XII, p. 1736.)

The general or undistributed construction costs shown in the statement arise principally from (a) the engineering work necessary to design, supervise and inspect the construction, and to test, check and to turn over to the management (p. 1732) an operative plant; (b) preliminary investigation and reports on the project, negotiations with the public authorities and others with respect to permits, taxes and other matters, expenses in connection with receipt and disbursement of funds and accounting therefor, payment of insurance and taxes applicable to the construction period, the assembling and advance training of an operating organization; (c) interest on the money expended for construction of the various parts of the project until they can be put into operation; and (d) cost of assembling the funds required for construction, which represents the difference between the amount of money provided by the investors and the amount of money available to the company to meet its construction requirements. (p. 1733.)

The cost of assembling funds required for the construction of the properties represents the difference between the amount of money paid by the initial investors in the securities when first issued, and the amount available to the new company to meet the requirements of its construction program. This is commonly termed cost of financing. During the years 1935 to 1938 inclusive, more than \$9,000,000,000 in securities, involving much refunding of earlier issues, were registered with the Securities and Exchange Commission. The cost of assembling the funds obtained through the sale of these securities, shown by the reports of the Securities and Exchange Commission, amounted to 4.35%. (p. 1734)

The undistributed construction costs applicable to the development of the properties of Colorado Interstate were determined as follows: (p. 1735)

(a) Engineering and supervision during construction	4.5%
(b) Corporate and other company expenses prior to and during construction	4.0%
(c) Interest during construction	5.0%
(d) Cost of financing	4.0%

Interest and cost of financing are applied cumulatively, making the total amount of undistributed costs 18.482%.

One-half of the total amount of undistributed construction cost was considered as depreciating with the property (p. 1736).

All of the elements of cost described related solely to the construction of the physical property, and included no amounts whatever for the negotiation of contracts or for the costs of seasoning the property or of developing an efficient operating organization. The cost of reproducing the property of Colorado Interstate, set forth in the Exhibit, contains no allowance for the cost of establishing the property as a going concern, or what is commonly referred to as going concern value (p. 1737).

Working capital in the amount of \$120,000, as determined in this exhibit (p. 1738), will be abstracted under the next title, where there is also included working capital requirements for the future.

The cost of reproduction new, with working capital in the amount of \$120,000, was estimated at \$12,270,273 and less depreciation at \$11,505,356.

Exhibit 68 (Vol. X, p. 1383) in like manner estimated the cost of reproduction new of the transmission system of Canadian River from the intake at Bivins station to a connection with the transmission line of Colorado Interstate at Clayton Junction, in the amount of \$4,217,175, including \$60,000 as working capital, and reproduction cost new less depreciation in the amount of \$3,772,382.

In Exhibit 71, the witness Rhodes brought this estimate of reproduction cost new, and less depreciation, down to June 30, 1940 (Vol. XIV, p. 1980), at which date the reproduction cost new was estimated at \$12,328,153 and, less depreciation, at \$11,551,077 (Statement 1), and for the transmission system of Canadian River, it was \$4,378,603 as the cost of reproduction new, and \$3,919,407 for reproduction cost new less depreciation.

Further Testimony of the Company's Witness RHODES.

Q. What is the date of this exhibit, Mr. Rhodes?

A. As of December 31, 1938.

Q. When did you start accumulating the information contained in the exhibit?

A. In 1938.

Q. What time in 1938?

A. I beg your pardon—in the spring of 1939, we started accumulating the data.

Q. In the spring of 1939 you started accumulating the data?

A. That's right.

Q. What month?

A. I don't recall.

Q. Do you know approximately what month?

A. I think the spring is quite near enough. The work started in the early spring in a small way and it was most active in the summer. The field work was completed in the fall.

Q. How many men were working under your supervision in accumulating this information?

A. Oh, various numbers from two or three to as many as fifteen or twenty.

Q. Were they all employes of Ford, Bacon & Davis, Inc.?

A. All except the regular company employes that I mentioned in my testimony, that—where we had company men to take off certain data from the records because of their familiarity, which was important.

Q. What part of this report did they get the fundamental data for?

A. They took off from the records as to accounts of materials on the books; for instance, for the purpose of making—or getting our book figures and as to detail of materials as shown by the books, that was taken off and furnished to us. The company's men dug out their records as to maps and furnished them to us.

Q. Just what type of records did they have to consult?

A. We consulted all of the records of the company as to inventories that we could find, engineering department records during the inspection period, maps, surveys, the accounting department records, purchase orders of materials, everything that we could find that related to the inventory of the property.

Q. You would say none of this reproduction costs new has anything to do with present reproduction costs new on the property?

A. This reproduction costs new is of the inventory as it existed at December 31, 1938. I have already testified that the prices at which that inventory was priced prevailed through the year 1939, and incidentally they also prevailed up to the middle of 1940.

Q. How do you know?

A. Because I have made an investigation.

Q. You have made an investigation to ascertain that prices recorded in this inventory here are the prices which have prevailed straight through 1939 and up through the middle of 1940?

A. Substantially uniform price level as affecting this inventory.

Q. What have you got to support that?

A. Well, we made inquiries from manufacturers of the principal materials. We have been keeping up-to-date reproduction costs new on other similar properties and they all indicate that there is no—up to the middle of 1940 there was no appreciable change in the price level as affecting this type of construction.

Q. What other property are you keeping a reproduction costs new figure on?

A. Well, we have recently had occasion to determine prices as of the middle of 1940 for—reproduction costs determination of the property of the East Ohio Gas Company which is three or four times the extent of this property.

(Vol. XI, pp. 1437-1440.)

Q. What large purchaser of pipe did you consult?

A. I consulted—

Q. That you consulted personally in 1940. I am asking a question about 1940.

A. I am in touch by telephone quite frequently with a Mr. Kelly, who has charge of pipe purchases for Standard Oil Company of New Jersey, and I ascertained from him the trend in pipe prices, as well as the trend that we find from purchases we sometimes make ourselves. I asked him what he had been paying for pipe through this period.

Q. Through which period?

A. Well, I asked him first about through the year 1938, through the middle of 1939, and later have extended it to 1940. I found that he and the purchasing agents of other affiliates of Standard Oil Company of New Jersey are paying for some couple of hundred thousand tons of pipe a year, which is far more pipe than entered into this project, paying the prices I used in pricing my inventory. They are not in their purchases of pipe per year going into this project getting the ten per cent I was allowed in a discount. Furthermore, I have had furnished me for the purpose of a check a list of purchases for a part of that period by certain of the subsidiaries and I find that his statements are correct. Those papers were loaned to me and have been returned.

Q. I want you to produce those papers in the hearing-room because I want to ascertain just exactly what the situation really was.

A. I have stated what the situation really was. I do not have the papers and the papers are not in my possession.

Mr. Dougherty: Mr. March, I think I can get them.

(Vol. XI, pp. 1443-1444.)

Q. Of course, before you negotiate with the manufacturer of the pipe, naturally you have to have a contract, don't you, when you purchase the pipe?

A. When you negotiate the price of pipe you usually issue a purchase order.

Q. Don't you have a contract?

A. Usually not.

Q. You don't know whether there were any contracts involved in this pipe purchased by Standard Oil Company or not, do you?

A. I didn't inquire as to the exact machinery. I saw purchase orders they had issued. I myself have purchased pipe on a purchase order without a contract.

Q. You didn't do that in the case of the Canadian River, did you?

A. No.

Q. You didn't purchase any pipe for Canadian River, did you?

A. No, but I purchased more pipe than was required in this property.

Q. For Standard Oil Company?

A. No.

Q. Who for?

A. (Pause.)

Q. Who for, I said?

A. I think that is an affair of another client that I don't think should be dragged into this situation.

Mr. March: It isn't an affair of another client. It is an affair of this procedure. I want to know if this witness purchased this pipe for Standard Oil Company or any subsidiary of it, and I think I am entitled to know that. There seems to be a close cooperation between the Standard Oil Company and Ford, Bacon & Davis, Inc., and I want to explore the angle. They even consult Standard Oil Company before they can make a reproduction cost new estimate. They have to find out how much to put in the estimate. That is the reason I want to know.

The Trial Examiner: Please answer the question, Mr. Rhodes.

The Witness: I will state this: The purchase to which I referred was made by Ford, Bacon & Davis, Inc. for the company which was not a subsidiary of Standard Oil Company and nobody in Standard Oil Company at the time of the purchases had anything whatsoever to do with that company.

Mr. March: What is the name of the company?

The Witness: You have also made some statements—

Mr. March: I object to the witness talking that way. Let him answer the question.

The Witness: You have accused me of doing something which I haven't done.

The Trial Examiner: Just a moment, Mr. Rhodes.

Mr. March: I request that that be stricken from the record. The answer is not responsive to the question, Mr. Examiner.

The Trial Examiner: I think Mr. Rhodes answered your question.

Mr. March: He hasn't named the company and I want to check to see if it is a subsidiary of Standard Oil Company.

The Trial Examiner: I don't believe that it is necessary or essential for the record, Mr. March.

Mr. March: I take an exception to the Examiner's ruling.

The Trial Examiner: Very well.

By Mr. March:

Q. What other company have you purchased large amounts of pipe for?

A. That is the only one company in which I myself have participated in purchasing such large amounts of pipe.

Q. In your experience in purchasing pipe, has it been limited to that transaction?

A. I have been acquainted with the purchasers of pipe of course in these hundreds of millions of dollars or more of projects in which we have participated in as engineers or constructors, and at the time the purchases were made I knew the price that was paid.

Q. Do you know the price paid for the pipe in the Canadian River project?

A. I don't recall the price.

Q. You don't know, do you?

A. I knew at the time.

Q. You don't know now?

A. I haven't looked it up recently.

Q. Did you make any estimate as to the cost of the pipe before the Canadian River project was laid down?

A. The price at which pipe was to be sold was provided to me at the time the earlier estimates were made.

Q. Did you make an estimate? Did Ford, Bacon & Davis make an estimate of the cost of pipe to go into this Canadian River project prior to the time that the pipe went into the property and the pipe was purchased?

A. We were informed as to what the pipe would cost.

Q. Did you make an estimate?

A. One doesn't make an estimate of what the price will be.

Q. You didn't make an estimate?

A. Of what?

Q. Of the cost of pipe to go into this project.

A. The cost of pipe to go into this project was placed in there as furnished to us as to what the price would be.

Mr. March: Mr. Examiner, I request that the answer be stricken as not responsive to my question.

The Trial Examiner: Mr. Rhodes, just state whether or not you made an estimate.

The Witness: Of course I didn't make an estimate of the cost of pipe in that project.

By Mr. March:

Q: Ford, Bacon & Davis made an estimate?

A: No.

Q: Have you ever seen this sheet of paper?

A: I don't know whether I have or not. It looks rather familiar but it has nothing to do with the cost of pipe.

Q: I hand you this sheet of paper and ask you what it is. Do you know?

A: This is a piece of paper with the heading at the top entitled "Bids on Pipe Line Construction, Amarillo-Denver Line, Project No. 1." The list gives the names of five contractors, giving their bid prices on 86.33 miles of 22-inch pipe, and there is a note at the bottom saying, "Bids were given exclusive of paint. Williams Brothers bid for hot application was approximately 17½ cents and only a few cents for cold application. Other contractors' bids exclusive of Booth and Flynn were in the neighborhood of 15 and 17½ cents. Estimated cost was 70 cents a foot."

Q: Who made that estimated cost?

A: I think Mr. Hill did.

Q: Mr. Hill of Ford, Bacon & Davis, Inc.?

A: I think he did.

Q: How much did that pipe cost according to that tabulation?

A: This doesn't state how much the pipe cost. This is a bid for the installation of the pipe. Mr. Hill in estimating the project estimated 70 cents a foot for laying the pipe. He got the bid ranging from 52 cents a foot to 82 cents a foot and the bid was given to the 52-cents a foot bidder.

Q: In other words, Ford, Bacon & Davis estimated it would cost 70 cents per foot to construct this portion of the 22-inch line of the Canadian River Gas Company, whereas, as a matter of fact, it only cost 52 cents a foot, is that right?

A: 52 cents plus some extras.

Q: What were those extras?

A: I don't know.

The Trial Examiner: Mr. Rhodes, did you say the 70 cents a foot covered the cost of laying the line?

The Witness: Why, the 70-cent per foot estimate which I say—I saw Mr. Hill's initials were on this paper—was made for the purpose of informing the backers of this project how much money they were going to have to put up. In getting bids from the several contractors he got a bid of 52 cents per foot, and I know in all the contracts that we have let there are provisions for extras such as rock-weighting the line and any of these unusual features that are not in the nature of ordinary construction.

(Vol. XI, pp. 1448-1454.)

The Trial Examiner: Pardon me, Mr. March. Just so that I might be clear: Now, this installation of pipe, what does that include? the ditching, the laying—

The Witness: It takes the pipe from the cars from the railroad siding where it is furnished, hauls it out to the line, strings it along the line, ditches the line, puts the pipe in the ditch, and back-fills it. The 60 cents is exclusive of certain welding work which amounts to little on this particular line. That is shown near—about a third of the way from the bottom of the page, it's being \$1,150, for instance, and it is also exclusive of what is shown on the following page of certain pipe coating on that line at other prices for the application of the coating, but the 60 cents a foot is what we think of generally as the laying or installation of the pipe.

The Trial Examiner: It would apply to the bare line as well as to the coated line?

The Witness: Yes, and then you pay extra for any portion that is coated, depending upon the kind of coating.

The Trial Examiner: Yes.

The Witness: You pay extra for incidental welded joints and miscellaneous items of that kind that it is not possible to definitely foresee when you ask for bids.

(Vol. XI, pp. 1461-1462.)

You gave no consideration whatsoever in your estimate of the reproduction costs new of installation of pipe and

the original cost—you gave no consideration to the original cost in that reproduction costs new estimate, what it really did cost the company when they put the pipe down?

A. Only to this extent: We knew—were informed by the contractor who built this particular section of line that he did a little better than come out even. When it came to the rest of the Denver line, we know that the contractor made a satisfactory profit, but our figures weren't based on the original cost other than to that extent. They were based on our basic experience covering some thousands of miles of line whereby we have determined and have set down as the consensus of opinion of our men who were experienced in that work the performance of men and equipment in the several different classes of country into which we divided that through which the line is to be built. They are based not on any one line but on the experience covering a great many lines.

It is of interest, of course, to know how the results in any one particular project such as this compare with the prices actually paid ten or twelve years ago and that comparison has been made by me.

(Vol. XI, pp. 1464-1465.)

Q. Why does it just so happen that in this particular case we are referring to here that the actual cost of construction of putting that pipe in the ground was something like 52 cents and you originally estimated it to be 70 cents and now you come along and say that the reproduction cost new would be 60 cents; is that an accident?

A. Yes.

Q. How many accidents like that have you got in here?

A. Well, any relation that might exist between the reconnaissance estimates and between the contract prices and between the prices I now estimate is an accident because I have estimated the cost of doing the work under the conditions which now exist, not the conditions which then existed.

Q. Do you mean to tell me that when Ford, Bacon & Davis, Inc. made the original estimate of the cost of installation of this pipe they didn't make a thorough survey, have thorough knowledge of the country over which this pipe would have to be put in the ground—they didn't make a

thorough analysis of the roads and vicinities of the road transportation facilities; they didn't take these other things into consideration that you now are taking into consideration?

A. No, but with qualifications.

Q. What are the qualifications?

A. Because the qualifications of these—in making reconnaissance surveys upon which people backing a project determine whether or not to put up the money, they do not require and are unwilling to pay for the cost of going into that detail. In this particular case the difference between the reconnaissance estimate and the contract price of 18 cents a foot was something of the order of three per cent of the cost per foot of the whole pipe line in place, and promoters of projects aren't willing to spend the money to go into the details to ascertain such minor differences.

Q. You call 20 per cent over estimate of costs originally a minor over-shooting of the proposition?

A. The people who put up the money speak of differences in terms of total cost, not in terms of the small part that might be under consideration.

Q. Now, who were the people who put up the money and did they refuse to make available to you enough compensation to go fairly into this project before they agreed to undertake the construction of the same?

A. Well, in answer to the first question it is a matter of record, I believe, that the Standard Oil Company furnished the money. In the second place, long experience in the engineering business leads us to the knowledge that people are unwilling to put up the money for detailed surveys in advance and we never asked to do it. It is generally acknowledged to be a waste of money to do it.

(Vol. XI, pp. 1466-1468.)

Q. Were these men working on anything else during this period?

A. During this period men have been working for me on this reproduction cost study of this Denver line project and economic analyses of the project and Mr. Lusk testified here as to the work he had done. He was one of the men who has worked on other features for me. I haven't the slightest idea what the average number of men was. It's

a thing that is meaningless to me. I haven't paid any attention to it.

Q. I didn't ask that question to you last. Here is the question I asked you, if you recall. I asked you: Were these men working on any other projects other than this reproduction costs new study here during this period?

A. You mean on work in connection with other properties?

Q. Other properties.

A. Some of the men were, yes.

Q. Were you working on any other reproduction costs, new estimates for other properties during this period?

A. Yes.

Q. And some of these men working under your supervision were too?

A. Some of the men who worked on certain phases of this work worked on other projects.

Q. Now, what were these other projects you worked on during—and these other men were working on—during the period they worked on this particular exhibit here, or the entire reproduction costs new in this exhibit which you have prepared in this proceedings?

A. Well, without being too exact as to date, which I cannot be because my memory isn't sufficiently accurate, during the period that this work was going on I have had made under my direction reproduction cost studies of Hope Natural Gas Company, of New York State Natural Gas Corporation, as well as this particular group of properties, on all three of which properties certain men carried out the same nature of work, for instance the determination of the construction conditions affecting the cost of laying pipe lines, putting the pipe in the ground, were carried out by the same group of men on all three of these properties and the estimates were made in an identical manner. The estimates of cost of reproducing compressor stations were in charge of the same men on the Hope property and on this property in as far as they relate to the performance of men and equipment. The work of turning those performances into dollars was carried out by different men. The inspection of the property for its physical condition was made by the same group of men in all three instances except as to the

compressor station condition of New York State Natural Gas Company which was not inspected by the men who inspected this property. I know I would say in general that the rest of the men working on this particular reproduction costs estimate were working on this alone except for incidental men who have been called in from time to time to help out.

(Vol. XI, pp. 1477-1479.)

Q. I believe that here you have assumed—you stated in your testimony that you are assuming that a newly independent and organized—a newly organized independent company would come in here and reproduce this project, you have assumed that?

A. Yes, that is the fundamental basis of the reproduction cost.

Q. You didn't assume that this project would be reproduced by the same parties that put the project in?

A. No, I assumed a separate independent corporation in order that this reproduction cost estimate would be equivalent to other estimates made where the people who developed the project were independent of these large operators.

Q. Then why did you consult Standard Oil Company as to the price of this pipe?

A. Because there has been so much question as to what the price of pipe is—as to what is the price of pipe I wanted to get the advice of a large purchaser to supplement my own information.

Q. And a company which was largely interested financially in the company in which you were making the reproduction cost estimate new for?

A. That was a minor incident. If there had been any other large purchaser of pipe I would have consulted them but I did not personally know of any other purchasing agents and I was able to get in touch with Mr. Kelly.

Q. There were no letters written between you and Mr. Kelly relative to this matter?

A. No, Mr. Kelly did not write me about it.

Q. Upon what basis do you assume that this project, if it were reproduced, would be reproduced for some independent and newly organized company?

A. Why, as a basis for setting up a reproduction cost

new comparable with other reproduction costs new that we made from time to time it is a standard method with us because these large operators always contribute something in the development of the project which never gets reflected on their books.

Q. In other words, not everybody can have John D. Rockefeller, Jr., put up all of the money like he did in this project?

Mr. Dougherty: I object to that question because that isn't the testimony of the witness.

The Trial Examiner: Objection sustained.

By Mr. March:

Q. Do you know who put up the money for the financing of this project?

A. Yes, the Standard Oil Company.

Q. Do you know how much in bonds John D. Rockefeller personally put up?

A. No, but the money was put up in the form of cash furnished to us, and the financing of the company was arranged for after it had been built. That is one of the details that are not possible with independent corporations. They have to go into the market for their money.

Q. In other words, an independent corporation would have a great deal harder time getting the money—

A. That is right.

Q. —than these parties?

A. That is correct.

Q. Why?

A. Well, they have no credit to start with, whereas I am sure Standard Oil Company have plenty of credit.

Q. It would have to first establish its credit?

A. An independent group would first have to establish the merits of the project to the satisfaction of the public.

Q. To the public.

A. Yes, to the buyers of the security; whereas, a project carried out by skilled operators can be done satisfactorily as to the merits of the project without quite so much difficulty. They are able to judge for themselves and after the merits of the project have been established the bankers have to sell the securities before there is any money to start the

building. For a great many projects of magnitude comparable with this it has been necessary to get the money from the public before the work has been started, at least in considerable part.

Q. You know, though, that if this project was reproduced it would be reproduced by these same parties?

A. No.

Q. You don't think it would be?

A. I don't know.

Q. Do you think it would be practical to reproduce this project in toto?

A. Of course nobody is going to reproduce something that exists unless it is destroyed in total. I am merely determining what it would cost to reproduce it if it were to be reproduced.

Q. You don't know whether it would be economically feasible to reproduce it or not if it were destroyed, assuming that?

A. I haven't investigated that phase of the situation.

Q. Therefore, you don't know whether these same parties would want to undertake the reproduction of these properties?

A. I have already said that I didn't know who would reproduce it.

(Vol. XI, pp. 1481-1485.)

Q. Now we come next to the question of accumulated depreciation. I note on Page 35 of your summary opposite "main" that you state the percentage of depreciation of the pipe line has been approximately seven per cent.

A. Yes.

Q. And I believe that is on an observed depreciation basis?

A. That is right.

Q. Will you define observed depreciation?

A. The per cent of pipe that has progressed towards complete depreciation physically.

Q. As observed—

A. The observed extent to which the pipe has progressed towards complete physical depreciation.

Q. You did not in any case here use straight line depreciation, did you?

A. I have used just what I stated, that this is the extent or percentage by which the pipe has progressed towards complete depreciation.

Q. As observed?

A. As observed.

Q. I am asking you a question as of whether or not you used this report at all in straight line depreciation, employed that method?

A. The words "straight line depreciation" have been so badly misused and has so many different meanings I am afraid I cannot answer your question until you are more definite as to what you mean.

Q. I will ask you to define straight line depreciation as known in the accounting and engineering world.

A. Straight line depreciation as it is frequently used is the application of an assumed life to a piece of property and the assumption that the property depreciates uniformly year by year and is completely depreciated at the end of that assumed life. That straight line depreciation I have not used.

Q. What straight line depreciation have you used?

A. I have found that this pipe has progressed seven per cent toward complete depreciation and I have represented the money as seven per cent of the total cost. It is straight line to that extent.

Q. Based, of course, solely upon observation?

A. Based upon observation.

Q. In other words, you didn't adhere so far as your calculations were concerned as to what date the pipe went into the line?

A. No, I was concerned only with that in the same way that you would be if you knew that seven per cent of the gasoline in the tank of your automobile was gone.

Q. How long would it take this pipe line to go out, to be completely depreciated?

A. More than a hundred years; that is, on the average. The pipe line itself can be maintained as a pipe line just as long as the company cares to do so.

Q. Yes, but assuming the pipe is in the ground and will last for over a hundred years?

A. The pipe line will, but some of the pipe will be replaced before a hundred years.

Q. A small portion of the pipe?

A. I don't know how much, but it is a fair portion of the pipe.

Q. In other words, this pipe line can be operated very well with minor repairs for a period of a hundred years from this date?

A. That depends upon what you mean by "minor." I have made no attempt to determine how much replacement of the individual joints of pipe would be required in the hundred years. I have merely ascertained that on the average the joints of pipe in the line have progressed seven per cent towards complete depreciation of the joints.

Q. I believe you stated you went along the line and every once in a while you would dig a hole over the pipe, scraping away about three feet of dirt, so that you could get all the way down to the pipe and then you made an examination of that particular portion of the line. You did that right on down the line, did you not?

A. Your statement of what I said is not quite correct. I stated that at practical uniform intervals of about two-thirds of a mile the line was exposed and inspected. That is an adequate sample for the purpose of determining the extent to which the pipe has depreciated or deteriorated.

Q. If I bring several pieces of pipe in here Monday and put them on the table here, do you think you would be competent to tell me how much those pieces of pipe have depreciated?

A. That can't be done.

Q. You can't do that?

A. No. You can take and examine a whole line and determine the average result as affecting the whole line, but I wouldn't attempt to do it with respect to any one piece of pipe or any several pieces of pipe that you might bring in here.

(Vol. XI, pp. 1532-1535.)

Q. When you take averages you have component parts of averages. When that man, whoever looked up that pipe, looked at it he had to give some sort of estimate from his observation as to just how nearly depreciated that particular piece of pipe was when he looked down in one of these holes, didn't he?

A. No.

Q. What was the situation?

A. He just recorded to me the extent and character of the corrosion he found, as well as the various factors that affect corrosion, such as the character of dryness and moisture of soil and so forth, but the principal thing which he did and recorded, and which controls the pipe, is the depths of the 10 to 20 deepest pits he finds by a proper study and comparison of those depths and their relationships one to another and the well known fact that corrosion slows down with time and to determine the most that that line could be considered to depreciate.

Q. He wrote a report upon every one of those little holes he examined, what the condition was of the pipe at every opening? In other words, it was a report of the erosion, exactly the state of the condition of the pipe, is that correct?

A. He took two feet of pipe, measured 20 or 30 or 40 of the depths—of the depth pits he would find in that pipe and reported their depths.

Q. He didn't report the condition of the pipe, is that right?

A. Other than the depth of the pits and the general appearance of the corrosion, and where it was worse—where the worst corrosion was located, and things of that nature, but he attempted to put no percentage condition or anything of the kind on the pipe as he saw it.

Q. You wouldn't expect one of your men to be able to look at a piece of pipe and observe how much it had depreciated, would you, what percentage?

A. It couldn't be done without measurements.

Q. That was not done in this case? Your men didn't actually take the measurements?

A. Yes, they took the measurements.

Q. They didn't measure the corrosion on the pipe?

A. They measured the extent of corrosion on the pipe and expressed it in fractions of an inch.

Q. What instruments did they use?

A. Depth gauges.

Q. How does this depth gauge work? Let's get the process that is followed. Do they first clear away a portion of the pipe.

A. Yes. I explained that the hole was dug large enough so they could get under the pipe, the sides of the pipe, and that it was cleared for about three feet, and the central two feet of it was completely and thoroughly examined.

Q. And how does—how do they apply the instrument you speak of, the depth gauge to the pipe?

A. The depth gauge to the pipe is an instrument that has a little needle on it, or the equivalent of a needle, that can be moved up and down with respect to the edge of the instrument, and there is a scale on it whereby when you put the edge of the instrument flat on the pipe with the needle pointing down and touching the bottom of the hole that scale will read the depth of the hole in thousandths of an inch or hundredths of an inch or whatever you want to use.

Q. Just the depth of the hole?

A. That's all.

Q. I am interested to know how you determine how much corrosion has taken place on the pipe.

A. The corrosion on the pipe as measured by the depth of the pits is the only thing in which we are interested because that is the thing which results finally in the pipe being retired and another piece being put in its place.

Q. You mean the depth of the hole?

A. That's right. Ultimately leaks develop and when the leaks develop because these pits have gone through the pipe, when they occur with troublesome frequency in any one location, then the men go in there and replace a section of the line.

Q. Did you have any instruments to measure the depths of the pits in the pipe?

A. Yes, that's the depth gauge which I have just described.

Q. Well, I am confused here as to your measurement of the hole, the depth of the hole and the measurement of the corrosion, or the depth of the holes on the pipe.

A. Well, they are the same thing.

Mr. Dougherty: When you say "the depth of the hole" you mean the hole that is dug in the ground?

Mr. March: I merely meant the hole in the pipe. I thought the way he was describing it he was measuring the depth of the hole in the ground, but I meant the depth of the hole in the pipe.

Mr. Dougherty: I think that's what he has been talking about.

By Mr. March:

Q. So this depth measure, measured the depth of the hole in the pipe?

A. That's right.

Q. Now let's see one of your reports. While he is getting that out, these reports are all that you had before you when you made your report—I mean when you made your estimate of seven per cent?

A. No, these reports had been studied and summarized and analyzed and certain determinations made from those, from this analysis to determine the extent to which this corrosion had progressed toward the point when leaks would occur in the pipe, and I had that before me when I reached the conclusion that seven percent fairly represented the depreciation in that pipe line.

Q. But would you feel competent—are you a chemist?

A. No, but I have studied chemistry.

Q. Do you have a chemist expert on your staff who helps you make these analyses of the condition of this pipe?

A. Chemistry has nothing to do with it. It is merely an analysis of the phenomena of corrosion that results from chemical action.

Q. And you feel confident by mere description of the condition of the pipe to—samples of conditions of the pipe to tell just exactly what extent the depreciation has been?

A. The inspections are made by men who carry out their instructions I give them?

Q. Do you feel competent to do that?

A. Yes, I have been studying corrosion of pipe lines intimately for the last ten years. I have cooperated with the Bureau of Standards in the study of corrosion phenomena and participated also with my associates in their corrosion conferences at the Bureau of Standards.

Q. Have you any reports you have written or articles you have written or reports that you have helped to write upon the phenomena of corrosion of pipe lines?

A. Yes, the Bureau of Standards in their files have reports of mine that were submitted to them in confidence.

Q. In confidence?

A. Yes.

Q. You wouldn't want to let us look at those reports, would you?

A. I have none of them with me and I'm sure they would be quite meaningless to a layman because they are highly mathematical.

Q. They certainly would make it possible for us to determine how much you know about corrosion.

A. I don't think they have any place in this proceeding. I have no copies and the nature of the work and the constructive work I have done with the Bureau of Standards is such that I don't think that they should be spread on the records of this meeting. I can show your engineers how it is done but I don't believe it would be understandable to a layman.

Q. I want you to show the Examiner on this record how it is done and have it on the record.

Let's see here, I notice here that you have "Pipe Inspection Report" here—"Main Line, Class: Transmission, Block No. 1, Section 1, County and State of Texas, Detail of Location, W. M. Green."

Now, would you go through that and describe just exactly the type of information that is contained on that report and by whom it was prepared?

The Trial Examiner: Is this a report now on the one hole, Mr. Rhodes?

The Witness: Yes. This is a field report made by one of our men, Mr. S. B. Brown; and it is inspection No. T-61, the location of which appears on a map which is in the working papers, and it gives the location of it in the usual coordinates of Texas as to the block and section and so forth, and it also shows it is located at Station 229 33, and it is also shown to be 1193 feet southeast of Drip No. 22. It can be located on a map. This shows that this inspector found the pipe was a 22-inch pipe. He measured it. He has a circumferential tape to measure the diameter so as not to guess. He found that it was steel pipe and lap-weld, that there was no joints or fittings uncovered in the hole. He showed that the topography was level. It was 100 per cent tilled ground. He showed where the test pit was the ground was level and he marked the contour "indefi-

nite." By that he means there was no particular slope around there anywhere. He said there was no drainage along the trench but the pipe had a slight slope of about a half a degree. There was a 28-inch cover over the pipe.

Then as to the surface of the line he said it was in a side of a property line in a field, that there was no pavement, of course, being in the field, that the general type of soil was loam and sand, or sandy loam as we interpret it; that it would be easy digging, and there was no pipe coating.

Now, that was general data which he recorded.

Now, then, he recorded as to general corrosion: First, as to the extent of the corrosion, it was slight and scattered over the surface of the pipe. Again as to location we have them record where it is heaviest or least and he said, "All over," and that means there is no particular choice.

Now, then, he records as to the nature of the soil or pipe scale immediately in contact with the pipe and he said it was negligible. Then he records in the length of 24 inches the depths of 30 pits, his instructions being to find the deepest he could and measure at least 30 if he could find that many and then he recorded the description of the pits themselves. He said they were shallow to medium in depth. This is the general description and they were small to medium in size, clean-cut, numerous and scattered, and they were generally all over the pipe.

Then he also recorded something which we are recording for future study as to what is called "a pit pattern." That is not used in this case.

Now, he also shows the field—the figures also showed that the F. P. C. inspector made certain pit measurements some of which are given here, F. P. C. men being Messrs. Hashmall and Hayne. It showed there was an engineer representing Denver by the name of Gilbert and that a Mr. Ferguson of Canadian River Gas Company was also there.

Q. How does the Federal Power Commission's pit measurements differ from the pit measurements of your men?

A. Well, I haven't compared them.

Q. Can you look right there now?

A. Well, the deepest that Brown found was 60 mills deep.

Q. That's your man?

A. Yes, and there were pits here 60 mills deep. The deepest I can find from the F. P. C.—I do not know what their A. B. C.—this A. B. C. is here—

Q. I notice here the F. P. C. says here it varies from 15 to 60; is that right—the depth of the pits?

A. The pits that they measured varied from 15 to 60 in this group A and they have another group here which varies from 30 to 60, and another one in another group from 30 to 45. I do not know what the meaning of these F. P. C. figures are. We didn't use them.

Q. Yes, you didn't give those any consideration?

A. We gave them no consideration.

Now, the deepest pit was 60 mills as Mr. Brown found it. That was taken from these figures in the office, by the way.

Q. What was the shallowest pit?

A. The shallowest pit that Brown found, or the shallowest that he measured here was 30 mills, but he took off in the office the average depth of the 10 deepest ones that he found, the deepest being 60 and the average of the 10 being 53. That was work done in the office.

Q. That's just about all that is on that tabulation?

A. That's right.

Q. You went through on each inspection in the same way—in the same manner?

A. Yes. All of the inspections were made in the same manner.

Q. Now, you had this report before you—first, I will ask you this: There isn't on the face of this any estimate at all by the individuals as to the per cent of the depreciation?

A. That's right. They have recorded only facts as they saw them.

Q. And a per cent would not be facts?

A. That would be an opinion.

Q. Yes, that would be an opinion.

Now, you took these reports and looked at them and averaged out the percentage of depreciation for the whole group, did you not?

A. No.

Q. Well, what did you do?

A. My people in the office tabulated all of this informa-

tion with respect to the depth of the deepest pit and the 10 deepest pits and by sizes of pipe, calculated the progress towards different conditions of corrosion. They calculated those based on two different rates of slowing down in corrosion that are very important factors.

Q. What are they?

A. The Bureau of Standards has been carrying on corrosion tests of pipe in various soils all over the country for fifteen years or more, and they have made a very careful study of the behavior of pipe in 47 different soils throughout the country, generally the most corrosive soils. They have found as a result of their investigations which have been published in the various Bureau of Standards' publications—

Q. Have you got the Bureau of Standards' publication you used here?

A. No.

Q. Can you get hold of that or give us a reference to it?

A. There are several of them, but I'd be glad to give you the references.

Q. Yes.

A. And they reported on 47 different soils of which they had completed tests. Without exception they found that the progress of corrosion slowed down as the time went on. In other words, there was more corrosion in the first five years than there was in the second five years and more in the second than in the third, and so forth, and all but about, I think it's six of the soils which they examined showed a slowing down in corrosion, such that in the increase in depth in the second five years, for instance, would be less than half as much as it was in the first five years. There were about six soils where the second five years, for instance, showed more than a half which were distinctly abnormal soils not characteristic of this pipe line, such as peat muck for instance. There was one up in Wyoming which was essentially one of the salt flats or dry lakes, conditions that were quite abnormal.

Now, of the soils that were characteristic of this country the second five years, for instance, showed an increase in pit depths of only about a third of that which occurred in the first period. Wherever we have a pipe line system with a long history and lines covering wide territory of different ages we are able to find the rate at which corrosion slows

down. I have done it quite extensively in the Appalachian territory, for instance, and I find that a fifty per cent increase in depth with doubling the age, that means if it went twenty mills in five years it would go another ten in the next five years—represents the least slowing down that we get in that country and that corresponds to all but the six abnormal soils reported on by the Bureau of Standards; so we made these determinations in one instance on the basis of the corrosion slowing down so that in the second five years, for instance, the increased depth would be about half of that which occurred in the first five years, that representing what I have found to be my normal experience, and we made other calculations where the slowing down was such that the second five years, for instance, would only be a third as much which is characteristic of the slowing down of corrosion in the soils of this East and Rocky Mountain country that are generally dry soils without much rainfall.

Now, these calculations were made in the office, as I say, separately for each size of pipe and they showed the progress of this corrosion to the point of where there would be one penetration where the hole had just gotten through the pipe in 10 feet, 20 feet, 40 feet and 50 feet. They made studies of the possibilities of reclaiming pipe through welding, because when you take pipe out of the ground in the event of a replacement it is only a part of it that is so bad that you have to throw it away. Other parts of it, the pits are welded up and it can go back into the ground. I took that into account, and in other words, the salvage value for reclamation which is the common practice of pipe lines today and I had that all before me, the result of a great deal of analytical work in accordance with certain formula that have been published as representative of the phenomena of corrosion, by the chief of the underground corrosion division of the Bureau of Standards.

Q. You are going to produce that for us, aren't you?

A. I will give you the reference. I don't have the extra copies of that particular publication, but I can give you the reference; and we applied those mathematical relationships which have been published and incidentally which I find are borne out by my examination of thousands of samples of pipe.

Q. Why didn't you examine any of the samples of pipe in this line?

A. Examine what?

Q. Any of the samples in this line.

A. I don't need to. I have been studying the effect of these relationships for years and I don't need to make these examinations.

Q. In other words, you don't need to observe the pipe in order to observe the depreciation, do you?

A. I don't myself. If somebody will tell me the shape of the gasoline tank in my car and say the level is 25 per cent of the way down, I can tell you what portion of the gasoline is gone. Now, that's the equivalent of what I'm doing here.

Q. Even I can do that, but will you kindly tell us this: You said—the kind of soil—what kind of soil is this on here—answer my question.

A. This just shows a sandy loam soil that is dry.

Q. Now, that is all that is recorded on there?

A. Yes. I don't care—

Q. I'm asking the questions here.

That is all that is recorded on there?

A. Yes.

Q. All right.

You have all this information before you here. Will you tell us what per cent of depreciation has been brought about in this particular stretch of pipe right here?

A. You can't determine with any one piece of pipe any more than one can tell the insurance company how long I am going to live. You could do that just as well.

Q. In order for the insurance company to insure people they have to know the length of the lives of a great number of people.

A. Yes, that is right.

Q. These are your component parts, aren't they? You took these average conditions and arrived at an average answer, didn't you?

A. Each one of these is an individual and the group is the group of individuals upon which I am getting group insurance.

Q. Yes. You have said that you are an expert and I presume you are on erosion?

A. Corrosion.

Q. Corrosion, yes, not engines?

A. That is quite a different thing.

Q. I want you to tell us and to tell the Examiner here from all of your expert knowledge, assuming that this was the only piece of pipe that we are requiring you to tell the per cent of corrosion or per cent of depreciation of, to tell us exactly what the per cent—you are familiar with the soil table; you are familiar with the Bureau of Standards' figures as to the per cent of depreciation—I mean the degree of depreciation—just tell us exactly from the information here what the per cent of depreciation is.

A. You are asking me to do something which nobody can do. It can't be done.

Q. If you don't have the component parts, you can't very well have the whole?

A. I have explained to you that it can't be done any more than anybody is going to tell you and I how long we are going to live.

Q. Are those the rest of the working papers there?

A. No, no, no. All of this is the field—

Q. I want to see the next step in this process.

A. This is a field inspection and this is an identification of these locations in typewritten form.

The Trial Examiner: We will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. March:

Q. I believe that this sheet that we were speaking of a minute ago, you say Mr. Brown's name is signed to that sheet?

A. Let me get the sheets again. (Examining documents.) His initials "S. B. B." are signed to most of these sheets.

Q. Mr. Brown is now working with you?

A. No, he is not. I don't know where he is.

Q. What happened to him?

A. He left us.

Q. What do you know about his ability along the lines of measuring these holes?

A. Well, among other things, he has—had been doing

it for us for about ten years and furthermore he was given specific instructions and was generally supervised by one of my assistants, Mr. W. G. Smith who worked with me very closely in the corrosion studies.

Q. Do you know all the men personally who worked on these studies?

A. You mean of my own staff?

Q. Yes.

A. Oh, yes.

Q. All right. Now, let's go to another point here: Look over here on your schedule on Page 36. Let's go to F. P. C. Account 372, Office Furniture and Equipment.

The Trial Examiner: Mr. March, before you get away from this corrosion business I'd like to ask Mr. Rhodes a question or two. Mr. Rhodes, do you have any known hot spots on this line?

The Witness: Yes, there are a number of them. I don't recall exactly where they are. There is one in the Arkansas River Valley on which one of my staff has installed cathodic protection during the past year. I am talking now of the Denver line as a whole.

The Trial Examiner: That's what I mean.

The Witness: And there is one other hot spot in the nature of a small salt flat on Canadian River's line that has had cathodic protection applied, but not completely worked out yet. In general the corrosion is not very great on these lines on account of the dry soil, but wherever the soil is wet, in river valleys or any of these little wet spaces where it drains out of an arroyo, there are hot spots there that are requiring attention. There have been very few places where the pits have gone through the pipe at the present time, very few, I think two or three instances have occurred in the hot spot near the Arkansas River which I was describing.

The Trial Examiner: And some pipe has been replaced there in those hot spots?

The Witness: I don't think they have replaced the pipe. Ordinarily when a leak occurs a band is clamped around the pipe with rubber packing over the hole and that practice is kept up as a rule until the leaks develop so frequently in

that particular location that it becomes an expensive nuisance and then one goes in and replaces it. At the present time cathodic protection is being installed in those places before it gets bad enough to warrant replacement.

The Trial Examiner: To your knowledge, none of that pipe has, we'll say, any material portion of that pipe has been replaced?

The Witness: I personally know of none that has been replaced on account of corrosion. Of course, there has been washouts where pipe has been replaced.

The Trial Examiner: I meant as to corrosion.

The Witness: I know of none, but I wouldn't be sure there had been none; but it is a very insignificant problem.

(Vol. XI, pp. 1535-1554.)

A. I concerned myself primarily with the all important item of pipe lines on which I had made a special study. Other parts of the property were conditioned by other men, or at least the field work was, but the final per cent condition on everything had to be made satisfactory to me. I talked with the men who, for instance, who inspected the compressor stations, buildings, and equipment, considered his reports and from his reports and the per cent depreciation deterioration that he found I assigned a figure which I considered to be a maximum amount of depreciation that existed in that property.

Q. And who was the man who made—that you talked to about compressor stations—depreciation of compressor stations?

A. Mr. Whittlesey who has been building and repairing compressor stations for us for the last ten years.

Q. Did he work for you?

A. He did. He still does.

Q. Let's see, now—compressor stations. Let's turn to that here. Well, you can have it here and we'll go over some of these things Monday morning.

All right, let's see, compressor stations—what is the percentage of depreciation?—well, pumping station equipment, 17 per cent depreciated. Do you recall whether or not you just adopted his figure or did you change his figure?

A. No, I talked to him and found out just what he had recorded and I reached the conclusion, knowing the equipment as I do, that in order to include all of the depreciation that existed in fact it should be increased. I don't recall the exact figures by which I increased his field observations.

Q. Do you recall whether or not he looked at all the engines in the compressor stations or just certain representative ones and made the analysis?

A. He examined all of the large units of the compressors and the auxiliary units, talked with the operators in the stations as to their repair and accident records and determined the extent to which these various wearable parts had worn out in service, and he had confined his figures purely to that extent. I took that into account and also the fact that it cost something to replace these worn parts when they are replaced, and added it to the total amount of depreciation. He had found an amount to cover all of the depreciation I considered could exist in that property.

Q. Well, now, you can have that report ready—his report ready Monday morning and we'll go into it at that time.

In other words, I am just picking out some of these items here which I consider representative.

A. Well, his reports are field notes. The summary of his report I assume is what you have in mind, his final figures.

Q. I want the information you had before you when you determined that the compressor stations had depreciated to the extent to which you have reported in your reproduction costs new statement.

Now, honestly, Mr. Rhodes, is there anything in the gas business that you think that you couldn't just look at and tell—I mean anything in the operating of a pipe line you couldn't just look at and tell by looking at it how much it had depreciated?

A. Well, I think that by process of observation I can tell a great deal more about how much it has depreciated on that property than somebody else could guess how long it was going to last.

Q. You didn't see very much—you didn't attempt yourself, though, to examine and observe directly the depreciation, very much, of this property, did you?

A. No, human life is too short to make it possible for one man to do all that, but I have been in all of the stations and I have seen considerable portion of the company's pipe that has been exposed where the depreciation has been bad, when I was studying the application of cathodic protection on this property and I believe that a man familiar with the business and with years of experience in the business can tell by an examination of the property a great deal more about what has happened to that property than anybody can possibly tell in any other way.

Q. Did you examine the houses, the houses down at Bivins compressor station?

A. I didn't myself, no. I have seen them recently. I have been in several of them.

Q. Let's see, how much depreciation do you have for these structures? Where is that in your report here?—structures and improvement; is that it?

A. I think it is in 352.1.

Q. Is it Page 85; is that right, the breakdown?

A. Just a minute. The dwellings at the Bivins station are included in the general plant structures and improvements and the priced inventory of the dwellings begins on 148.

Q. Now, what is your average percentage of depreciation?

A. Well, the average percentage depreciation of all those general buildings, dwellings, the office there, the warehouse and storehouse and welding shop and the machine shop, and so forth is 19 per cent depreciated.

Q. Did you have your subordinates make individual examinations of each of the living quarters and the details of all the equipment in the living quarters?

A. They examined the houses as to the condition, the foundations, floors, frames, roof, walls, and so forth. Of course the equipment in the building in general is owned by the occupants. The furniture is usually—the buildings are provided unfurnished.

Q. The fixtures in the buildings?

A. Well, to the extent they applied and they represent a very small part of the cost, and you don't spend a lot of time trying to condition something worth five dollars, for instance.

Q. All right. Were these men who examined these houses capable of appraising the depreciation of a house engaged in

that sort of business? What sort of business were these men engaged in?

A. Well, I must check as to which particular man inspected these houses. Let's see if I can do that. I'll have to look that up for you, but my recollection is, which I'll verify, it was the same man that builds compressing stations and the houses that go with them and has been doing it for me for quite a number of years.

Q. You couldn't tell me by looking at this court room how much it was depreciated, could you?

A. No, we don't do it that way. We examine those things in a house which a skilled engineer knows are the things which cause it to depreciate. They do not examine the superficial things.

Q. Could you examine this court room carefully—do you feel competent to examine this building and tell us what percentage is depreciated?

A. That could be done but it would cost quite a bit of money to do it.

Q. I mean, do you feel competent to do it yourself?

A. Oh, I could do it, but I wouldn't want to attempt it because it would be just a fruitless job for me to do it.

Q. You don't feel competent to examine one of those structures down at Bivins station and determine how much it has depreciated, do you?

A. I could form my opinion, but it would be a waste of money to have me spend my time doing that. I own a house, and I know something about the condition of a house. I have had dozens and dozens of them built for me and I have seen houses dozens of years after I built them.

(Vol. XI, pp. 1557-1563.)

Q. Did you—what about this engineering and supervision during construction? How does that compare with the costs of—you mean that is to be performed by some sort of firm like Ford, Bacon & Davis, Inc.?

A. Generally the independent operators of necessity have to get somebody who knows how to develop and build their project.

Q. How does that compare with your fee and the original cost of this property?

A. I haven't compared it.

Q. Did you take into consideration at all your original fee?

A. No, I based this on the experience that we have had in these independently-financed projects and arrived at these figures as fairly representing what I believe would be incurred in a similar circumstance.

Q. Now, in arriving at this engineering and supervision during construction, of course you had to consider what these engineering firms like Ford, Bacon & Davis, Inc. would charge this company, this independent company, for this service, didn't you?

A. Well, on the contrary I figured what the independent people are willing to pay a firm such as ours.

Q. Well, now, let's see, what sort of investigation did you make to determine and arrive at this 4.5 per cent?

A. Well, there were a number of projects on which I had complete information—natural gas, other utility projects, and a toll-bridge project which sometimes is considered a utility, in which I had the overhead costs analyzed to break them down as between—as nearly as could be—as between engineering and supervision during construction. On the one hand that includes inspection of work in progress in the field as well as the supervisory engineering, these miscellaneous corporate expenses, interest, and where there was any cost of financing, I did that, but in general that has to be determined separately and I also segregated from these general expenditures of those companies expenditures which we have not allowed for here, having to do with contracts and unusual expenditures in connection with licenses, and so forth which some companies incur. The cost of financing was determined—

(Vol. XI, pp. 1564-1566.)

Q. Presuming this hypothetical reproduced property was not an independent newly organized company, but the same persons, the Rockefellers and Standard Oil Company who put up the money to begin with in regard to this project, were the backers of the project, then your cost here in your reproduction cost new assessed to engineering and supervision during construction would be less than it is here actually in this statement, is that right?

A. I don't know what it would be if any Rockefeller

furnished the money, because we looked to Christy Payne for the money.

Q. Of Standard Oil?

A. Christy Payne was the man I looked to.

Q. If Christy Payne was still with Standard Oil Company and this project was to be constructed and it was to be reconstructed new according to the plans you have set out here, the estimates other than the engineering and supervisory service, would you say that the cost of engineering and supervisory service to Standard Oil Company would be less than to a newly independently organized company?

A. Yes, it would be.

Q. How much less, approximately?

A. I don't know. I think of these undistributed construction costs myself as the combined engineering and corporate overhead because they are so closely tied one to the other that it is hard to separate them, but if you take those two together I should say that it could be done for possibly 25 to 30 per cent less than when such work is carried out for an independently promoted operation.

The Trial Examiner: You mean 25 per cent of all the items or—

The Witness: In the aggregate. Take for instance the engineering and corporate overhead during construction. It amounted to about $8\frac{1}{2}$ per cent. When the work is carried out under the conditions under which we have worked for Christy Payne—I mention his name because our relations have been solely through him—that from 2 to $2\frac{1}{2}$ per cent could have been saved of that, making it 6 to $6\frac{1}{2}$ per cent or 7 to $7\frac{1}{2}$ per cent.

By Mr. March:

Q. Who has your relations been with since Christy Payne retired in 1933? Whom did you deal with in Standard Oil?

A. In connection with construction of projects such as this we have done none for them.

Q. I mean, who did you negotiate your present retainer fee agreement with?

A. This retainer fee—I didn't negotiate it and I really don't know. I think it was negotiated with Mr. Gallagher.

Q. Of Standard Oil Company?

A. Yes, sir.

Q. In arriving at this engineering and supervisory charge during construction, did you not consult anybody, any other engineering firm as to what they would do the job for? You just relied upon your own firm's past experience with fees, so-called independent projects?

A. That isn't so. We have a few in which we have specific figures but we have been in business for more than forty years and these figures are not merely figures that are solely my experience but they represent the consensus of opinion of our principal men in the organization. As I stated, in the working papers I have my own personal experience explained which shows how that experience compares with these figures.

(Vol. XI, pp. 1574-1577.)

Q. Now we come to the cost of financing. I believe you have already testified that the cost of financing would be considerably less if Standard Oil were reproducing this property—Standard Oil and their associates?

A. I don't recall whether I have or not, but it is a fact.

Q. How much less?

A. Well, as related to this particular project, for instance, they made no specific charge for the cost of financing. Of course, when Standard Oil itself has to raise a lot of money in the market there are certain costs of financing involved, the extent of which I do not know as I haven't investigated.

Q. There wasn't any cost of financing at all assessed against this property?

A. I don't recall that there was.

Q. You don't know whether the Standard Oil Company had any trouble in getting hold of this money or not?

A. The money came as fast as required, which is more than happens on some projects.

Q. You didn't have any trouble in getting the money?

A. No, none at all.

Q. The cost of financing of this independent hypothetical company includes the financier's fee and all of that that goes along with it?

A. It includes all those things which represents the difference between the offering price of the securities as listed with the Securities and Exchange Commission and

the net amount of money the company gets. It includes the spread of the investment bankers who distribute the securities, it includes the out-of-pocket expense incurred by the company in connection with the issuance of the securities.

Q. I believe you stated here in the report that during the years 1935 to 1938 that the Securities and Exchange Commission's figures showed that the cost to the companies was on the average of 4.35 per cent to finance on the average—I mean the cost of financing?

A. That is right, 4.35 per cent of the net proceeds to the companies.

Q. You don't know what the cost has been during the last year, do you?

A. Oh, I don't recall. I haven't seen the figures during the last year.

Q. That is—

A. These costs have not been widely varied from year to year. They are dependent more on the type of business and on the type of securities than anything else. As I recall it, the cost of financing securities for the industries listed by the Securities and Exchange Commission as the extractive industries in which they list the production of oil and gas, that cost of financing is up in the neighborhood of 20 per cent or so.

Q. How much was it for gas?

A. They do not list them separately.

Q. How does it happen you made an analysis for this other far-fetched industry and didn't make an analysis for the gas industry?

A. I didn't make the analysis for these industrials. That is one of the classifications made by the Securities and Exchange Commission itself. It doesn't make a separate classification for natural gas companies. They are grouped with other gas companies and other utilities.

Q. You have just testified, as I understand it, that in considering the cost of financing it is very important to consider the type of industry that you are attempting to finance. You didn't consider the Securities and Exchange Commission's figures in regard to the cost of financing natural gas companies, did you?

A. I did not make a calculation at which I arrived at

four per cent but I did have an analysis made of the cost of financing of natural gas companies. I found that as related to the production end of it, which is classed as an abstractive industry, it was very much higher than the average, and as related to the natural gas companies whose securities have gone through the Securities and Exchange Commission, which are primarily transmission and distributing companies, even then the cost of financing was somewhat higher than the average, but the whole thing is complicated to such an extent by the exact class of securities issued that an exact figure cannot be assigned. It was for that reason I conservatively took a figure smaller than the average of the Securities and Exchange Commission.

Q. .355 per cent, less than one-half of one per cent?

A. It was almost ten per cent, one-tenth less than the average. You express it in dollars and the difference between four per cent and 4.35 per cent on a million dollars is a very tidy sum of money.

Q. I want to know the name of the publication of the Securities and Exchange Commission which you refer to here in order to get your average.

A. The annual reports of the Securities and Exchange Commission. It is just under that name. It will enable you to get at the average. They publish periodicals and other analytical reports giving the names of each and further details, which I don't recall. I have a list of such publications in my room at the hotel.

(Vol. XI, pp. 1582-1586.)

Q. So you didn't give any consideration to the size of the companies in these particular cases, then, in view of the fact that one company is two or three times the size of the other and you used the same per cent?

A. Well, my sole thought in both cases was to use a figure that was lower than the average experience in financing, hoping that it would avoid a lengthy cross examination as it did in that case.

(Vol. XII, p. 1613.)

Q. Did you leave out any definite figures in regard to

going concern value because you wanted to keep from being cross examined?

A. No, I was requested not to consider going concern value except to explain that I had omitted it.

Q. Who asked you that you were not to give any consideration at all to going concern value?

A. My clients in this case.

Q. I thought here that—you say here on Page 31 in regard to going concern value:

“All elements of cost described above relate solely to the bare bones of the physical property or plant of the new company.”

What do you mean by “bare bones”?

A. Well, that is a descriptive term indicating that the properties there, there is no business connected with the property which involves the expenditure of money in the negotiation of contracts. It means that while it may have an organization there to run the property, nevertheless, the organization has not yet learned how to run the property. In other words, we have something like a new automobile that you have to take back to the service station every two hundred or every thousand miles to put in shape, where fortunately the price of the automobile includes that service, but it costs somebody a lot of money.

(Vol. XII, pp. 1614-1615.)

Q. Well, let's see—so in the allowing of costs for training of your personnel and taking care of seasoning the line, you do allow for those two costs?

A. I have made no allowance for them in this reproduction costs new.

Q. I know, but you have in your going concern?

A. I have made no allowance for going concern. I have made no attempt to determine how much more it would cost to get this property seasoned after it was built.

(Vol. XII, p. 1622.)

Q. But you have here all the costs for a 22-inch main included in your reproduction costs new estimate?

A. No, not all the costs. I do not have the costs of

carrying the difference between the 60,000,000 a day and the 125,000,000 a day until the growth of the territory used it up. There is nothing in there to cover that, and that is the cost—one of the costs that must be met by somebody in creating a going concern out of a property that has just been constructed.

Q. The rate payers usually have to pay for the cost of service, don't they?

A. Oh, no, the company pays for it out of its gross revenues.

Q. But they get the revenues from the rate payers?

A. In this case they get the revenues under contracts that were negotiated.

(Vol. XII, p. 1625.)

Q. Are you going to have a corporate structure as distinguished from your operating structure, your operating organization? Are you going to have any common stock?

A. I don't know.

Q. Are you going to have any bonds?

A. I haven't made any assumption that I would have anything. I have merely assumed that a corporation would be formed, a newly-organized corporation without the benefit of the things which they get from the large operators of these properties, and that that company, whatever may be its corporate structure, whether it is bonds or whatever it may be, will have the property built for it. Whatever the bonds and notes and whatever other securities might be issued would naturally be pictured under such an event by the investment experts and the relation of bonds to preferred stock and common stock, or notes, or what-not might be different, depending upon what the investors were demanding. I made no attempt to take into account a specific financial corporate structure. It has nothing to do with these overheads that are incurred during the construction period except as it may affect the interest during construction, and in that case investors in properties demand that all of the securities be sold in advance and all of the money be put in the bank before the property is started to be constructed as has happened in my experience; then that item of interest naturally will be much higher than will be the case if the money is forthcoming exactly as

needed to meet obligations. To that extent the corporate structure will affect these undistributed construction costs, but otherwise I don't see that it makes any difference.

Q. What sort of a corporate structure did you consider in that extent?

A. I didn't consider it specifically. I assumed it would be a relatively ordinary structure.

Q. What is a relatively ordinary structure?

A. Well, I have heard them referred to by bankers as a company, we will say, with forty to fifty per cent bonds, or thereabouts, and twenty to thirty per cent preferred stock, and the rest common stock. I have heard that referred to as an ordinary structure.

Q. You considered this company would be that type of company and would have that type of structure?

A. Not specifically. I just assumed normal conditions and estimated a figure which I thought would fairly represent interest during construction for a ten-months' construction period.

(Vol. XII, pp. 1639-1640.)

Q. I want you to tell me what this form letter was sent out in regard to; what prices?

A. This form letter, or a letter closely related to it, was sent out to the manufacturers of the equipment other than pipe. As to the people to whom it was sent out, I don't recall.

Q. Will you read it into the record?

A. This letter reads as follows:

"The properties of this company include items purchased from you of the kind listed on the sheets enclosed in duplicate. We will greatly appreciate having you fill in these sheets your lowest cash prices as of December 31, 1938, to a substantial and financially responsible purchaser less all discounts applicable to purchases in the quantities shown together with shipping weights and f.o.b. points. After being filled in, one set of the enclosed sheets should be signed and dated at the place provided therefor and returned to us in the enclosed self-addressed envelope. The duplicate set is for your files. It will be very helpful if you will give this matter your prompt atten-

tion. We appreciate that in answering this request it may involve some expense on your part. If there is any charge for this service, please send your bill to us and it will receive our prompt attention.

"Very truly yours,

CANADIAN RIVER GAS COMPANY,
Purchasing Agent."

Q. You did send out form letters like that to certain of the manufacturers, is that right?

A. That is the general scope of all of the requests for prices which we made.

Q. I will ask you this question: In any of these letters to these manufacturers did you tell them that you were going to use the figures for a valuation study or production costs new study?

A. In general they were told only what was disclosed in this form letter.

Q. Did you tell any of them you were going to use any of the figures for a reproduction costs new study, a valuation study?

A. I don't recall specifically that we did.

Q. I refer you to the working papers in regard to answers from some of these companies. This letter is dated July 6, 1939, from Ingersoll-Rand Company. I will ask you if that is a part of your working papers?

A. Yes.

Q. I will ask you to read the last paragraph of that letter—first I will ask you to read the heading of the letter, from whom it was written, and give the last paragraph.

A. This is a letter from Ingersoll-Rand Company dated Denver, Colorado, July 6, 1939, and it is addressed to Canadian River Gas Company. It quotes prices on certain compressor units and ends with the quotation in this paragraph:

"These figures are given for valuation figures only, which we understand is the purport of your inquiry.

"Trusting that this gives you the information which you

require and welcoming any further questions you might have, we remain

"Yours very truly,"

Q. It is from the Ingersoll-Rand Company?

A. The Ingersoll-Rand Company and signed by W. S. Grimshaw.

(Vol. XII, pp. 1661-1664.)

Q. Mr. Rhodes, what explanation have you got with regard to that statement in that Ingersoll-Rand letter relative to these figures for valuations?

A. Well, first you will note that they said they assumed something which was a wholly gratuitous statement on their part. Second, I have had figures from manufacturers where they were unwilling to make a quotation which would be a firm quotation. They want to hold themselves free not to accept a firm order at the quoted price. It may be low. The letter of inquiry which I read into the record which was generally used was the best I knew how to tell the manufacturers that I wanted real prices and it was well known in the newspapers that this company was going to be involved in a rate case, I assume. I can't imagine their not being in a position to assume correctly that these figures were going to be used for the purpose of evaluation. I wouldn't attempt to say they didn't know, but I can't imagine their being quite so dumb, shall we call it, as to not be aware of what was going on.

Q. You think this is very exceptional, in other words?

A. It is exceptional for them to say anything about it in their replies.

Q. Because in your letters you didn't mention that it would be used for valuation purposes?

A. Well, I didn't say anything about that. I told them the kind of a price I wanted and I assumed they gave us a price of that kind, and in cases where we found that that was not the kind of price we have ignored that kind of price and used a competitive price which we knew was the price.

Q. And none of these letters which you state were to be used for valuation purposes, is that right?

A. No, we don't tell them so. That's one of the de-

vices we used to avoid getting the high figures that were once alleged to have been used on valuations.

Q. Then why did you so inform them in this letter—first I'll ask you: Who is L. B. Whitefield, purchasing agent?

A. He is the purchasing agent of the Colorado Interstate Gas Company and he sent this letter out—

Q. Just a minute—

A. Wait a minute. You're asking me about a letter.

Q. Yes, sir.

A. That was sent out—this letter was sent out before I had submitted the form letter that I wanted to be used. I don't know what's in it, but I do know that.

Q. This letter is dated March 14th, 1939.

A. That's right.

Q. And most of this information is for 1939, isn't it?

A. Most of the information is as of December 31, 1938.

Q. The letters were sent out in 1939, weren't they?

A. The letters were sent out in the late spring of 1939, yes.

Q. All right. I'll ask you to state for the record who wrote this letter and to whom it was written.

A. The letter on the face of it states that.

Q. Who?

A. The letter is written to the Dresser Manufacturing Company and signed by L. B. Whitefield, Purchasing Agent, who is the purchasing agent of the Colorado Interstate Gas Company.

Q. The date of the letter is March 14th, 1939?

A. Right.

Q. I'll ask you to read the first paragraph.

A. "Please quote us for valuation purposes and on the basis of having bolts shipped direct from factory present-day prices of Dresser steel pipe couplings, Style 38, with extra-heavy Paranite C rubbers in quantities and with specifications as follows:"

Q. All right. Here is another letter. This letter is from whom to whom?

A. This letter is a letter from S. R. Dresser Manufacturing Company to the Colorado Interstate Gas Company, attention Mr. Whitefield.

Q. Dated?

A. March 30th, 1939.

Q. Will you read the last paragraph in the letter?

A. "We trust that this will give you the information you require for valuation purposes, and remain,"

Q. All right. Here is another letter—yes, here is the letter right here. Will you state from whom this quotation is and—

A. This is a letter from the Naugle Pole & Tie Corporation; that is, an attachment to a letter from the Naugle Pole & Tie Corporation to the Colorado Interstate Gas Company, attention to the purchasing agent.

Q. What is the date of the letter?

A. The letter is dated June 2nd, 1939.

Q. All right. What about this attachment? What does it say here at the top?

A. The letter says—this attachment which they filled in, has stating at the top:

"Please quote for valuation purposes in the following poles:"

Q. In other words, this was for poles. Poles for what?

A. Telephone system. Excuse me a moment. Off the record.

(Discussion outside the record.)

By Mr. March:

Q. All right, now. Here is another letter. Will you state the date of that letter?

A. June 30, 1939.

Q. From whom to whom?

A. From Southwestern Engineering Company to the Canadian River Gas Company, attention of L. B. Whitefield.

Q. All right. Will you read the middle paragraph there?

A. "For estimating purposes we would think that you could formulate a sufficiently close approximation through the knowledge that in 1928 these units sold for \$4,600 f.o.b. cars, Channing, Texas. The estimated shipping weight was 25,000 pounds each."

This paragraph in itself is somewhat misleading.

Q. Is that your statement?

A. Yes, because the first paragraph in the letter states:

"We must inform you that several years ago we discontinued the manufacture of Collins Water Tube Boilers, so that we cannot give you the information you asked for."

Q. All right. Will you state to whom and from whom this letter was written?

A. This is a letter dated December 7, 1939 from the General Paint Corporation to the Colorado Interstate Gas Company.

Q. What is the date of the letter?

A. December 7th, 1939.

Q. Read the first paragraph.

A. "From our inquiry, we assume the information requested in your letter of December 5th is for some purpose of valuation and that you are not currently interested in a purchase of such a large quantity of pipe line coating."

Q. Now, this Dresser Manufacturing Company letter, I want you to identify as to what products you were inquiring about in regard to that.

A. That was the Dresser couplings used on the main lines.

Q. Pretty large item?

A. Several hundred thousand dollars.

(Vol. XII, pp. 1665-1670.)

The Trial Examiner: What page is that on, Mr. March?

Mr. March: That is from Page 44—begins on Page 45.

The Witness: The field inventory and the pricing of all buildings were carried out by a man in our organization by the name of J. C. Cook. He had the—in determining his unit prices, he had the assistance of a group of men working for me on the valuation of Hope Natural Gas Company, and to make sure that we were all using the labor performances that are established in our office as proper for buildings. He also had the advantage of consultation with a Mr. C. C. Whittlesey, who is one of our construction men who participated in the construction of some of this property here and who has constructed compressor stations with their housing facilities aggregating—

oh, somewhere between 70 and a hundred thousand horsepower in the past few years.

(Vol. XIII, p. 1749.)

A. He saw each and every building, checking the inventory in the field with the book inventory and he determined the condition of a large part of the employes' houses.

Q. Yes, but he didn't determine the condition of all the employes' houses?

A. No.

Q. But on some of the houses he went in and actually made an examination of the house to determine the condition the house was in—how much it was depreciated—all of that?

A. Every house has been inspected for condition. He inspected most of them. The rest of them were inspected by another engineer who also inspected the major structures on the property.

Q. Who was that?

A. Mr. Whittlesey.

Q. Where is Mr. Cook now?

A. He is in New York so far as I know, but by this time he may have been assigned to work in any part of the country. I don't know where he is at the moment.

The Trial Examiner: Is he still in your employe, Mr. Rhodes?

The Witness: Yes, he is.

By Mr. March:

Q. Do you think you can testify here on this record that Mr. Whittlesey actually saw these houses—the greater part of them, he actually from his observation determined the depreciation of each of these houses, the condition the house was in?

A. Mr. Whittlesey only saw a small part of the houses. It was Mr. Cook that saw the most of the houses.

Q. Mr. Cook—I'll change that. Mr. Cook, did he see almost all of these houses?

A. Yes.

Q. And he did himself from his observation of the houses determine the depreciated condition of the house?

A. Yes, he made a report on each house?

(Vol. XIII, pp. 1752-1753.)

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Q. If it had a concrete foundation it was depreciated just the same as the rest of the house?

A. No. They depreciated the foundation as best could be done by an examination of the foundation near the surface of the ground. The foundations of these houses are relatively unimportant.

Q. I would like to see your breakdown here of this item of chicken coops just as an illustration as to how you depreciate these various items. I wonder if you could obtain your working papers and we could have it in the record, setting forth just exactly how much depreciation you assigned to that particular piece of property?

A. I can't show you that because I myself did not assign any per cent condition to any particular house. My men reported to me on the condition of the various parts of the various buildings as to whether they were excellent, good, fair, poor, or bad. Those various ratings were finally translated into a per cent condition by me based upon my knowledge of construction of this type of building and my general inspection of the property, and the details as they were reported to me.

(Vol. XIII, pp. 1755-1756.)

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Q. Let's see. You have your men go out and inspect these properties. They didn't assign any specific depreciation to these individual houses or anything, but they merely rated them according to the formula which you set up, is that right?

A. That is right.

Q. What is that formula which you set up?

A. Well, if they saw—inspect a building or any part of a building and could find no evidence of deterioration they rated that part of the building as excellent.

The Trial Examiner: Now you mean, Mr. Rhodes, their minute inspection of a foundation—that is, they take the house in its several component parts and rate each part of the house?

The Witness: Of the larger structures, not of chicken houses.

The Trial Examiner: I am not speaking of them.

The Witness: They examine each part; the foundations, if there are any, the walls, the roof, the framework, and if they can find no evidence of deterioration there—in other words, if there is a percentage of being new or the equivalent of that, they rate it as excellent. At the other extreme they have a rating of bad which they give when they find considerable depreciation and where heavy repairs are imminent. On older properties occasionally buildings or parts of buildings are found which are rated much worse than bad—several degrees worse.

The intermediate ratings are good, which is where deterioration is just beginning to show up, but no repairs are indicated as likely to have to be made in the near future.

In fair, the deterioration is more pronounced and some repairs are required, but not too soon; and then you have poor, which is between fair and bad, where considerable depreciation is in evidence and considerable repairs are required soon but not to the extent of bad. These three intermediate degrees between showing no depreciation or deterioration and the rating of bad included the greater part of their ratings. Each one of these particular parts of buildings of importance were rated in that way. That was their field work. They received uniform instructions from me on this job and the other jobs that had been going on under my direction. The office work in connection with that was to weight these good, fair and bad, to find a fair over-all rating for the building itself and group of buildings where similarly—the condition of good, bad and fair, and so forth—was determined by weighting the conditions of the individual buildings in proportion to the cost. It could have been done as a percent condition but we were interested in getting an overall rating and it is a simple thing to do mathematically or by figures as long as these five different ratings are given five consecutive numbers. You get the weighted average and you can tell whether the average is between good and fair or good and excel-

lent, and by that means you will get an overall rating for the building or group of buildings.

Now, generally speaking, I have found that anything that shows up as being badly deteriorated and an imminent need of heavy repairs may be considered as being half depreciated. It is not possible to arrive at an exact figure but that is the intent in rating anything as being badly deteriorated. Heavy repairs are something which in the opinion of the inspector has lived half its life. As I said before, we found some very very bad structures that were in imminent need of being torn down but not in this property.

By Mr. March:

Q. Not on Colorado Interstate's property?

A. No, we haven't found any buildings ready to be torn down.

Q. Let's see, when anything is excellent, what per cent depreciated is it?

A. Very little, possibly five per cent.

Q. Five per cent?

A. On the average, yes.

Q. I see you have 5 per cent assigned to this pipe. I won't go into that, though.

When it is fair, what per cent is it depreciated?

A. On the average the ratings are excellent—will average 95 per cent. A building or part of a building rated as excellent might be new on the one hand or have been used up to 10 per cent on the other hand, and 95 per cent is a fair figure as applied to a group of properties. The fair would range between 10 per cent depreciated—no, the good would range between 10 per cent depreciated and 20 per cent depreciated and so on. The bad ranges between 60 and 50 per cent.

Q. Did you solely on your own initiative devise and invent this classification?

A. No, this classification was the result of an extended conference with men, two men who have worked for me for a long time in the construction of buildings, a Mr. Whittlesey being one of them and Mr. Green another, who

have had long years of experience in construction and rehabilitation and conditioning of buildings.

Q. This Mr. Green, what is his profession?

A. Mr. Green is a Civil Engineer who has been working for us for fifteen years or more in work related to building construction, evaluation, and so forth.

Q. How many houses has he built? dwelling houses?

A. I don't know. Houses being a small part of it, I wasn't concerned. Mr. Whittlesey has built, however, the dwellings and all of these compressor stations we have built, probably two or three or four hundred of them. I don't know the exact number.

Q. Did he give any consideration to the date upon which he built the houses?

A. The date in itself is meaningless and we give no consideration to that except indirectly in old buildings which of course don't apply here. In old buildings—

Q. Where did you have old buildings?

A. On several properties that I have been making reproduction cost new studies on.

Q. Not in connection with these two companies?

A. No.

Q. Mr. Whittlesey helped you on the other two properties?

A. Yes. In fact, the methods for inspection of condition was devised by Mr. Whittlesey, Mr. Green, and myself.

Q. What is Mr. Whittlesey's profession?

A. Mr. Whittlesey is primarily a construction engineer who builds for us and is now building compressor stations with their housing facilities, pipe lines, and so forth.

I will give you his earlier training.

He graduated from Washington University in St. Louis in 1921. He worked during the summer months on various jobs while he was being educated.

Q. What degree did he get?

A. He didn't state here on this piece of paper. I don't know.

Q. He is—is he an engineer?

A. Yes. His earlier experience was with the engineering firm of McClelland & Junkersfeld in the building of

a large power station in St. Louis or East St. Louis that cost forty million dollars. He was an assistant civil engineer on that work.

After that and until 1925 he was with the Engineering Department of the Missouri Pacific Railroad, the Louisiana Division, making appraisals for the Interstate Commerce Commission work and in the investigation of wrecks, and so forth, for the Interstate Commerce Commission, and he was engaged in miscellaneous railroad construction work.

In 1925 I hired him personally to come to work with me in connection with a power station constructed in the Monroe Gas field. Since that time he has been with us primarily on construction work related to power plants, compressor stations, and pipe lines, and has done some rehabilitation work in connection with that and miscellaneous valuation work as it comes up from time to time; but he is primarily a natural gas compressor station construction man in the later years having, as I say, constructed for us a large number of compressor stations with structures almost identical with the structures on this property.

(Vol. XIII, pp. 1756-1762.)

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Q. Now, did he construct—on Page 46, I refer you to compressor house, one story and basement, steel frame, concrete foundation, walls and floors, and so forth and so on.

A. No, he didn't construct that house.

Q. Who constructed that house?

A. I don't know who constructed it.

Q. Has Ford, Bacon & Davis, Inc. ever constructed houses itself like that?

A. The Clayton station was constructed by one of the men on this property as selected by Mr. Hill and Mr. Trelease who constructed that compressor station and its various facilities. Just which buildings he constructed or which was sub-contracted I don't know. I haven't examined the records?

Q. Who was that man?

A. I don't recall his name.

Q. Did you consult him in the—

A. No.

(Vol. XIII, p. 1764.)

A. Here is the main compressor building at Clayton. The building is a type 2 building in which—which identifies the pricing of it. It has a concrete foundation, concrete floor, steel frame, corrugated *asbestos* walls, and roofing, steel sash, steel doors; it's 309,304 cubic feet. The foundation of that building was inspected and found to be poorer than excellent. In other words, he didn't want to say as much deterioration as good, but it was a little poorer than excellent. This is Mr. Whittlesey's inspection. I think he worked in the construction of that building.

Q. Are his initials on here?

A. Yes, "C. C. W." He found the columns of that building to be excellent; the siding fair; the sash excellent; the doors, good; the floor was excellent; the floor finish was only fair; the roofing was fair; and he has a note here that eight of the sheets were damaged in some way. It is not clear. The condition of the paint was poor; the lighting was excellent; the heating system was excellent; the plumbing was a little better than good, and the ventilators were good.

Q. What's this note down here at the bottom?

A. Some main compressor building wall cracks. That's the corrugated *asbestos* wall and there was some floor cracks.

Q. All right.

Now, you're an expert. You have before you this sheet here. Now, I want you to give us the benefit of your expert knowledge as to just the per cent to which this particular piece of property has been depreciated.

A. Well, I haven't presumed—

Q. Well, could you?—

A. —to assign a depreciation to a single piece of property.

Q. Do you feel capable of doing it?

A. If I were going to condition this piece of property and no other piece of property I wouldn't be able to take advantage of the averages which I gave you in the ratings.

as to excellent. I would have to go into it in detail, but when you're inspecting many pieces of property, the condition excellent will average out very close to the 95 per cent, but as related to this piece of property the percentage might be 91 or 99.

Q. So, it's like taking an examination in school. You fail a certain percentage of the class and give a certain percentage A and to a certain percentage B.

A. No, not like that.

Q. All right, we've got this one piece of property here. I want to test your expert knowledge. We've got this one piece of property here and I want to know from the data which you have before you here, just exactly how much that piece of property has depreciated, what is the depreciated condition of that piece of property?

A. As related to this one piece of property, as I have already stated, this information is not as much as I would want.

Q. What else would you want?

A. I would want more information as to why he called the foundation a little poorer than excellent. I would want more information as to these wall cracks and so forth. I would devise a greater number of ratings. This building, as I say, might be anything within the range of these ten per cent steps.

Q. You couldn't tell from this?

A. But when you take a group of buildings, the over and shorts average each other out and you have—if you are familiar with the buildings and the man who inspects them is familiar with the buildings—you can have a very good rating as to the condition of that building.

Q. You mean to say this, that if you had, say, we had a hundred compressor stations instead of one compressor station here—I have a hundred sheets of paper here with the same type of information on the paper that is on this one piece of paper—

A. That's right.

Q. —then you think you could tell what the depreciated condition of the group would be?

A. If the man who inspected it inspected this building.

Q. Well, isn't it true that the parts make up the whole? If you can't tell the depreciated condition of one compres-

sor station, how can you tell the depreciated condition of many compressor stations when you don't have any more information on the group that you have on the individual parts?

A. You do have one phenomena of nature, that you can always rely on, that when you rate a great many things with a range in the ratings that the average of those ratings comes very close to being the middle. That is the case in almost everything that is encountered in nature.

(Vol. XIII, pp. 1766-1769.)

Q. Now, let's turn to one of these wooden houses—any wooden house there—any wooden house you've got there.

A. Well, here is a group of wooden houses that were inspected by Mr. Cook and they are concrete foundations and wood frame and roof with composition shingles and wooden sash. The foundations of all of them are rated as excellent. They were all built at the same time. The frames of all of them were good; the sidings were good; the sash was good; the doors range from fair to good; the floors were poor to fair; the roofing was a little better than fair to good, and the paint was fair to good, and in the different houses the condition of the electric lighting was good to excellent; the heating system was fair in most cases, good in one case, and the plumbing was fair to good.

Q. Now, is that for an individual house or for a group of houses?

A. The ratings assigned here are the ratings obtained by inspecting each house.

Q. Well, let's see, now. You're reading from this—this reading here, that is Dwelling No. 1, you were reading in regard to Dwelling No. 1, Dwelling No. 2, Dwelling No. 3 and Dwelling No. 4.

A. I was looking at the group of dwellings from 1 to 8 and giving you the range of the conditions of the parts as he found them.

Q. All right, I'll ask you the same question I asked you in regard to the compressor stations. Now here you have a little different picture. Instead of one house you have a group of houses. Now, from your vast knowledge of houses, I want you to tell me from that information the percentage of depreciation from those houses.

A. Well, I haven't determined that. I'll be glad to tell you what I did with respect to the total—with respect to all the buildings in that group.

Q. You have all the mental faculties you had when you did that, haven't you?

A. There is a great deal of work to be done before the mental faculties are brought into place.

Q. All right, let's go through that work.

Now, you have this information before you. What else have you got to determine the amount of depreciation there of these four houses—just these four houses?

A. Well, I haven't determined it.

Q. Well, what else would you have to do if you did?

A. Well, if you had to do that you would have to assign a rating number to excellent, good, fair, and so on, which might be 1 to 5, or 10 to 15, or any other group of consecutive numbers you wanted to. It doesn't make a darn bit of difference which—leave out the "darn." We would know from the analysis of reproducing these houses that the foundations cost a certain per cent of the total, and the frames cost a certain per cent of the total, and the sidings and the sash and these various parts inspected cost a certain per cent of the total.

Now, these rating numbers assigned to excellent, good, fair, poor and bad would be weighted in the proportion that the parts contributed to the costs of the whole building and if, when they ended up, they averaged the number that we assigned to good, that particular group of houses would be called good as a whole. If it was between good and excellent, we might call it good plus or excellent minus, and we would thus have a rating of these—of this group of houses, which we wouldn't attempt any closer than good plus or good minus, or as the case may be.

Q. In other words, you would have to know first what foundations cost, plumbing cost, and the roofing cost, and that would be the first requisite, is that right?

A. Yes, that's the first step.

Q. Now, as I understand—I want to get clearly in the record just exactly your method. As I understand it, it is sort of like the judges do when they go out and have

a prize cow contest or something like that. The judges have rating sheets and they look at the cow and say, "This is good, excellent—the grade on the hind legs and front legs and horns—and the condition of her skin," and all that, and come up to a grand total, is that right?

A. No.

Q. How long would it take you to figure out for us right here in the hearing-room about these four houses, just exactly?

A. Well, it would be a waste of time for me to do it. I could figure it out, but I have figured out here, though, everything relating to the condition of the group of buildings in that account at that compressor station and I can show you just exactly what I did with respect to the whole, but I didn't figure the condition of the houses separately and it is not a part of my method.

Q. Say you were just an ordinary person and not an expert, and you see standing out here, a steel building, a steel and concrete building, and standing over beside it is a wooden house. Which would you say would last the longer?

A. I don't know. I have seen wooden houses older than any steel building that exists.

Q. You wouldn't know?

A. Well, I've just answered. It depends entirely on how the building is taken care of.

Q. In making this study, you made no attempt to study the respective durability characteristics of wood and steel?

A. Yes. We took that into account by what could be seen by observation as to whether there had been deterioration or not, and the relative durability of the different materials in these particular buildings is shown by what has happened to them in the period that they have been in existence.

Q. Now, you threw in here and assigned, I believe it is 14 per cent depreciation to the same—to chicken houses, hose sheds, steel and compressor stations, five-room dwelling houses of wood—you assigned the whole group a 14 per cent depreciation.

A. To the group, yes, but to the individual buildings, no.

Q. Well, now, how much longer do you think, from your experience, do you think that those steel and concrete com-

pressor houses are going to last than this wooden hose house?

A. That depends on whether the company keeps them up or not. The wooden buildings could be kept in shape—could be made to last as long as the steel buildings if it was so desired.

Q. Well, what do you think about the respective life of these properties—these types of properties, if they are kept up in the ordinary manner that they are being kept up now? Do you think that the steel house might have 100 per cent longer life than the wooden hose house?

A. Ordinarily when you go to the extreme of a wooden hose house and a compressor station building you are taking a rather ridiculous range.

Q. That's just what you have done here, isn't it?

A. No.

Q. Well, you have here—I notice here you have tabulated in your Account 352-1, this steel compressor house and in the same account with your wooden hose house, and the whole group you assign a 14 per cent depreciation.

A. I assigned it to the group but not to the individual—

Q. Yes, but you do have all of it stacked in here in one account.

A. Yes, they are put in the account that calls for such structures to be—that calls for the coverage for such structures.

Q. All right, now, let's move along here to the pumping station equipment, say—354-1. Is that where your engines are located?

A. Yes, that's where the compressor units are included.

Q. All right. Let's turn to that. What page is that on—the breakdown?

A. Are you referring to the priced inventory?

Q. Yes.

A. It begins on Page 108.

Q. Now, these engines here, compressor engines, I believe they are concrete foundations, are they not?

A. Yes.

Q. And they are bolted down to these concrete foundations?

A. Yes.

Q. Now, what detail did you go into personally to determine the depreciation of the engines?

A. I personally determined, in consultation with Mr. Whittlesey, the method of finding the condition of these engines.

Q. What was that method?

A. Mr. Whittlesey went out to each and every one of these compressor stations and determined the condition of the wearing parts of the engines which wear out in service. For instances, in gas engines the cylinders wear out from time to time; the pistons and the piston rods, and the crossheads; the valve gear, and like parts. That represents approximately 30 per cent or thereabouts of the cost of such equipment. Generally the main frame and the shafts and the fly-wheels don't deteriorate. If they ever are replaced they are replaced as the results of accidents. That 70 per cent is not considered as depreciated.

Mr. Whittlesey reported to me as a result of his inspections, weighting the cost of these various parts which do depreciate, and gave me an overall rating that these wearable parts had worn out to a certain percentage.

Q. Where is that? Is it handy there—Whittlesey's report?

A. These are Whittlesey's reports.

Q. Let's see one of his reports.

A. Well, here is a report on the Clayton station. This would be main unit No. 3, and the company's numbering, and it's 1,000 horsepower, 125RPM unit, of Worthington manufacture, the bore of the power cylinders is 20 inches and the stroke is 36. That is in error because the bore is 22 inches, but that point is purely an error in writing down, and there are two compressor cylinders 15 $\frac{3}{4}$ -inch bore.

Now, he rated the—considered the power cylinders, the parts that wear out. There are four power cylinders on each of those engines, two on each side, a right-hand and a left-hand; and he rated the valves and the cylinder castings in each of those four cylinders as excellent. He found the liners in the cylinders which are replaceable liners that wear out, as good; the cylinder heads as excellent; the

piston rods as fair; and the pistons and rings fair; and the packings good. They represent the principle parts that wear out in the power cylinders. Those parts of these power cylinders which can be seen are examined and their condition determined. The records of the station as to replacements and general performance of the engine is determined by consultation with the records and with the Chief Engineer of the station.

Then he rated the exhaust valve which involves a depreciation of wear and tear that is characteristically different from other things, and he determined the conditions of the valve casings as being excellent; stems, excellent; stem guides, excellent; the springs as good; the exhaust elbows as excellent; and the pipe and fittings in the exhaust of the engine as good.

Then he examined the other valves and mechanism, like the gas mixing valves, the air starting valves, and the camshaft and the valve mechanism and the cams and the layshaft and the gears and the governor mechanism, and they were all found to be in excellent condition.

Then he examined the bearings and cross-heads—determined them by the behavior of the engine in operation and found them to be in excellent condition.

Then he similarly rated the parts of the compressor cylinders and the liner and the piston rods and the piston rings and the valves which are rated as in fair condition; the unloading mechanism as in excellent condition, and the packings as poor.

Q. Now, what are these red things on here—94 and 82—what's that—in red on there—not a part of Mr. Whittlesey's writing?

A. These figures as related to each of the engines is a weighting of these excellents, goods, and fairs, and so forth, with the non-wearing parts to find the equivalent numerical rating which corresponds to 95 per cent being excellent, and so forth.

Q. So this—

A. This is a first step in determining the condition of the equipment in that station.

Q. Does that 94 per cent mean that it is 6 per cent worn out, this particular engine—this particular portion of the engine?

A. A group of engines with that rating would mean that 6 per cent was worn out, yes.

Q. I'm talking about this engine. This engine has 94 in red letters here in somebody else's handwriting besides Mr. Whittlesey's and I want to know here exactly whether or not that means that this engine—this portion of the engine, is 6 per cent worn out.

A. Not precisely. It may be plus or minus a number of points because the rating of each individual thing; that is, averaging up, is only within a range of 10 points, and as related to this particular engine, a more complete and detailed inspection might result in a somewhat different figure, but we find that as these inspections are averaged up with a group of property, that uncertainty disappears.

Q. Yes. Now, in other words, you want to change your testimony, then, that you didn't give individual depreciation ratings to these individual units?

A. Why, not at all. I have just testified that that is not the rating except within a range of uncertainty, but it is the first step in finding the per cent condition or the per cent deterioration in all of the equipment in the station.

Q. Which first step is the rating of these individual units, and you might change the overall group when you get all of the figures and consider them together?

A. If you took all of the engines in this property, all of the 1,000-horsepower engines, which is 8, the average of these figures would be rather close to representing the extent to which the parts of the engines had worn out.

(Vol. XIII, pp. 1770-1780.)

Q. Where is your sheet on the concrete foundations of the engines?

A. There is no sheet. I have testified in the explanation of this reproduction cost that the engine foundations, various piping, and so forth, connected with the engines was given the same rating as the engines. The prime reason for that is that in general when an engine is retired

permanently from a station the foundation and pipe are also retired from the books of the company. They go together so we put that equipment that depreciates very very little in the same condition as the engine. If we are going to keep the foundation and the piping for the installation of some other engine, we would have over-depreciated it, and if anything, it is over-depreciated by adopting that method.

Q. You say the concrete foundations are over-depreciated?

A. From the purely physical standpoint, yes. They are put in the same condition as the equipment in the station, not each engine foundation but all foundations as a whole.

Q. How do you know that they are over-depreciated here since you state that you did not make any attempt to ascertain the amount of depreciation of the concrete foundations?

A. Because physically they would all be rated as excellent because that is their condition by themselves, but they are less than excellent as far as usefulness is concerned because if the engines are 15 per cent depreciated and the foundations have to go with the engines, it would be foolish to say that the foundations were in 100 per cent condition, even though they might be physically so.

Q. So you took into consideration when you placed depreciation on items as to how useful they were, is that right?

A. That is not quite the interpretation of it, no, and I wouldn't say that I did that. On the other hand, I have depreciated at the Canyon station at a very low value a certain building, the usefulness of which is rather indefinite, and that building has been marked down on that account, but that has nothing to do with the fact that when an engine is permanently retired the foundation is retired with it. The foundation is 100 per cent useful all the time it is there.

Q. As a matter of fact, the foundation may outlast the engine?

A. I have said it does; that foundations are rarely retired—engine foundations—except when the engine itself is permanently retired from service.

Q. You wouldn't have to even look at the concrete, then, to determine the amount of depreciation of the concrete?

A. In general, no. There are stations which I have seen, however, where foundations have deteriorated to such an extent through ground settlement that the inspection of those engine foundations in that particular station would have resulted in a considerable mark-down which was later corrected by the installation of suitable underpinning.

Q. In determining the depreciation of concrete, would you think it would be advisable or helpful to take into consideration how long the concrete had been laid?

A. You can tell by the looks of a concrete foundation whether it is deteriorated or not, and whether or not that deterioration is likely to result in a heavy replacement of a part. That sometimes happens. Parts of foundations fall off due to the concrete not having been good concrete and they have to be replaced. If anything like that is found which rates a foundation below the corresponding rating, in the manner I have described, that foundation is so marked down in the determination of the depreciation.

Q. Say one of these engines down there would blow up. Would you say that you would put another engine on the concrete foundation?

A. That depends upon the extent of the blow-up. Furthermore, that is an accident against which it is not possible to figure depreciation.

Q. You don't really know much about concrete yourself, do you?

A. Well, there are hundreds of thousands of yards that have been poured on jobs which I have been closely associated with, and a considerable part of it on jobs where I have been out in the field and have been responsible to see that it is carried out.

Q. So much for that.

There is just one question so the record will be entirely clear on it.

Would you depreciate the concrete 12 per cent? That is the amount of depreciation of pumping station equipment. You would depreciate concrete foundations 12 per cent because the engine showed 12 per cent depreciation?

A. I assigned that percentage to the concrete foundation as a whole because the equipment and the station was depreciated 12 per cent, yes.

Q. Now, in order—

A. A small portion of the whole station depreciates less rapidly in fact than the engines has been depreciated by me as much as the engines.

Q. In order to really do a workmanship job of determining the depreciation of the engines it would really be necessary to disassemble some of the engines, wouldn't it, one of the engines, or something like that, and examine minutely the wear and tear of that engine?

A. If you did not know anything about engines and you had no information as to their past history for repairs, it would probably be necessary to spend five or six thousand dollars to disassemble one of these engines and put it together again, but to one who is familiar with engines and knows how they act, and knows what the conditions are, knows what the cost of replacements are, he can tell the condition of an engine by inspecting the visible parts, having the engine operated for him, and investigating the replacement records as for cylinders and pistons, and so forth, in the past, and he can arrive at a very good measure of the condition of that equipment; and when that measure of his is applied to a group of equipment the uncertainty washes out.

The Trial Examiner: Do you know, Mr. Rhodes, whether consideration was given to the past operating records of the engines as to replacement of parts?

The Witness: All I know, of course, is what Mr. Whittlesey told me that he did in carrying out my instructions, and after years of experience with the man I learned to believe him.

By Mr. March:

Q. I have something in mind here. I don't know how it will work, but before I even attempt it I want to know if it will be possible for you to tell the answer.

If I have a man come in here with one of these pistons and put the piston in front of you and I ask you how much that piston has depreciated, do you think you would be capable of telling me?

A. It takes more than just looking at the thing. It

requires some records in the case of these rapidly wearing parts, as to how long they have been in use since they were replaced, which information can be obtained from the records, and what has been the experience in that station. The visible evidence is only one of the things that you take into account. For instance, a piston rod may be worn, be very rough, and look as though it were going to have to be replaced very soon. A piston rod, however can be turned down on the lathe and go through a number of those experiences but finally there is so much of it that can be cut off that it has to be replaced. It takes skill and knowledge of equipment and it takes a knowledge of what has happened previously to assign any condition to that particular piston rod.

Q. So you wouldn't attempt to tell me the depreciation of the piston?

A. It takes this other information.

Q. You wouldn't attempt to observe the piston and tell what percentage of the depreciation had taken place just from observation?

A. No. One could have a piston that had been turned a number of times for putting in new piston rings so that the next time it happened it would have to be scrapped, or the piston might be a brand new piston that apparently had some cracks in it, or the piston may be one that had been subject to overheating through overload or through scale forming inside, and you could have a piston that looked perfectly good by itself but if you didn't know anything about its past history you couldn't condition it.

Q. In other words, I would have to bring the record with me as to the life of the piston and what it had been used for and how much it had been operated and all that?

A. Those things would have to be taken into consideration. You will recall my stating that the rating of any individual thing may be within quite a range of uncertainty, but the rating of the large aggregation of those things iron out those uncertainties.

Q. But in examining these engines, the various parts of these engines, you have testified here as I understand it that you did not have to have before you the record of performance of the engine.

A. I have not testified to that effect.

Q. It was necessary to know when the engine was purchased and its record, wasn't it?

A. I didn't say anything about the age of the engine itself but the length of time the various parts had been used. Take, for instance, an engine may be 20 years old and used very very little. That engine is almost in the same condition that it was in when it was bought. On the other hand, an engine may be given terrifically hard use continuously for four or five years and be in very bad condition. Age itself is only one of the things. Indirectly it counts as it offers an opportunity for the engine to be used.

Q. What else did you have the record of in making this, the record of how much these houses were used?

A. Houses don't wear out except by rotting because they are static things.

Q. They wear out depending upon what type of people are in the houses, don't they?

A. It is perfectly evident what has happened to houses—you can tell what has happened to the house when you look at the house. The parts that wear out from the people being in them are quite obvious. The thing to look for in houses are the hidden parts, the under-pinning. When that rots—once in a while we have termites that cause extensive damage to a house but those are not the things that wear out—that are worn out by the occupants.

Q. Some of the engines—you just looked on the outside of some of the engines and you didn't attempt to determine the condition of the inside of the engine.

A. The engines were not dismantled for the purpose of determining their condition.

Q. You don't think any engineer could go down to one of your plants and by observation determine the depreciation of the engine unless he had before him the record of the operation of the engine, do you?

A. He should know what had happened to that engine. He should know about the policy with respect to replacements and whether the engine had a good operating record or one that was subject to frequent breakdown. He takes those things into consideration and if he is experienced and knows what he is doing he can fairly determine the extent to which a group of these engines has deteriorated as related to anyone with less precision, but as related to the

group he can determine, I believe, quite accurately. You must bear in mind that very little equipment from the standpoint of wear and tear ever gets worn down to more than 30 per cent depreciation and he is trying to find where it is, somewhere between the 70 per cent and the 100 per cent.

The Trial Examiner: We will stand in recess for five minutes.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. March:

Q. Mr. Rhodes, you state, I believe, that it is necessary for you to have some record of performance of the engines before you in order to determine the depreciation. That is correct, isn't it?

A. You should have it.

Q. I want to see your working papers which will show the record of performance of these engines.

A. These working papers do not show it. That is one of the things the inspector determines by questioning and these particular engines have comparatively little replacement that has been suffered. In going over the inspection reports I haven't myself noted that, but it is not customary to make a record of that in these inspection reports unless there is some unusual feature involved.

Q. You don't have that information before you?

A. No. The man who rated the parts, however, had the ability to see the engine, to see it run, to see the station logs, to talk with the operators. You don't make a specific calculation of these specific things that have occurred. The individual parts are rated within a range of tolerance.

Q. Some of the engines may not wear out at all, is that correct?

A. If they weren't operated, they wouldn't.

Q. So part of the engines are comparatively not depreciated at all?

A. That is what I have stated. The main frames and fly-wheels and so forth are never replaced except as the result of an accident. There is no depreciation assignable to them because of the fact sometimes you have an accident.

Q. In determining depreciation here, why was it you took the engine in its repaired condition? You considered the engine in its repaired condition?

A. We took the engine as we found it.

Q. A large part of the engine might have been replaced?

A. Yes. It is conceivable it may have all been replaced. I have known of engines that have been completely overhauled and everything that was more than slightly worn was replaced, and when you get through those engines would rate as being in excellent condition even though they had been given terrible abuse for several years.

Q. Did you make any check to ascertain whether any of these engines had just been repaired and put in excellent condition before you made your—attempted to make your determination as to the depreciation?

A. I didn't, no. Mr. Whittlesey took into account everything he could ascertain as having a bearing on it. I took into account something else when I adjusted his final figures.

Q. What was that?

A. That was this, that a large amount of equipment in a number of compressor stations that have been well seasoned tend to approach the point of about 15 per cent depreciation. In other words, some parts last ten years, some fifteen, some five, but as this property gets seasoned with the various replacements of these parts the tendency is to approach about a 15 per cent depreciation. A property that has been abused or that is very old may well have depreciated more than the 15 per cent and a property that is relatively new and well taken care of will have depreciated less than 15 per cent.

Q. But you didn't give any consideration as to whether the properties were relatively new or relatively old?

A. Only to this extent: If a man reported to me that all of the equipment in the compressor stations that was very old was in 90 per cent condition he would have to prove it to me.

Q. I want to see one of those reports.

A. You have just been looking at one.

Q. This report doesn't say anything about age on there.

A. No, because I know just within what a few years—it doesn't make any difference. If I had a bunch of stations with engines in them twenty-five years old or more and he reported them to be in 90 per cent condition, he would have to prove it to me.

Q. In other words, you couldn't rely just on observation as to the depreciation? You would have to take into consideration the age?

A. I would question the work he had done. I mentioned that these variations in the overall condition are merely one of the guides to a man who is experienced in the gas business that can be used to determine whether or not his field men have done what he told them to do.

Q. What did you tell them to do? Did you tell them in this case to tell you how old the engine was?

A. No, I told them to find out how much the engine had worn.

Q. Say that I bring in a piston. Are you going to want to know how old it is?

A. I have already told you it wasn't practicable to condition a piston by itself.

Q. You couldn't tell?

A. We only determine the extent to which the condition of a piston contributes to the condition of the whole engine. These things are all inter-related one to the other. The piston itself doesn't depreciate very much. It is pretty much an accident that causes them to be replaced, but we take into account a condition of a piston if we find out that pistons are cracked, if we have a series of troubles with them as we have had in some stations with pistons cracking, and if that condition was continuing in the station, and hadn't been cured, those pistons would have been put on the average in bad condition. That is a condition that has been carried pretty generally in stations.

Q. Say that this desk here is an engine. You are on the stand up there, an expert, and I will ask you to tell us what the depreciation of the engine is. You are not going to want to know how old the engine is?

A. Only within a wide range of years.

Q. How many years?

A. We would be interested in knowing whether it was 10 or 20 years old but we would be much more interested in knowing how many hours it had run, whether it had been overloaded or underloaded or low speed or high speed. If you want to be specific with reference to a specific engine you have to take all those things into consideration, but as related to the group that can be taken into consideration more generally because the individual things—

Mr. Brock: Let me interrupt you there.

You said "condition" when you meant "consideration."
You have said that a number of times.

The Witness: That is right.

By Mr. March:

Q. Coming now to the concrete again, you say that you know quite a bit about concrete?

A. I think I know something about it.

Q. Do you know whether concrete depreciates or not?

A. Some does, some doesn't.

Q. Did you ever hear of any concrete that didn't depreciate?

A. Well, I have known of concrete that has lasted a good many years without any evidence of depreciation, and I have known concrete to go to pieces in one year.

Q. Would you say that some concrete really gets better with age?

A. Up to a considerable length of time, yes, and just how long that is, we don't know, but for the purpose of supporting an engine it doesn't have to get better. As long as it doesn't get into the condition where it no longer supports the engine it hasn't depreciated materially.

Q. So you handled the concrete in connection with its functional performance in regard to what it is connected to?

A. That might be one interpretation of what I have done as related to the engines, yes.

Q. That is all on that angle just for the moment.

I want to direct your attention to when we were talking about pumping station equipment. On this exhibit we are talking about now under Colorado Interstate you have 12 per cent depreciation. On your Canadian River you have for the same property 17 per cent. Can you explain any reason for that?

A. Well, there are a number of reasons for that. In the first place, the Canadian River field station and any other field station has a more continuous use than the line station. The difference is roughly in the capacity of this line to handle gas and whether all of the line stations are in or all of the line stations are out is only about 2 to 1, and consequently, there is a considerable part of the year where the stations on that line are not in use and they are not

being used so much—not being used so much they don't wear so much.

Another reason is that we found on inspecting the pipe—the piping around in the yard of the Bivins station, that there was considerable deterioration in excess of that found in the yards of the other stations.

Q. Is the pipe included in this pumping station equipment?

A. Yes, all of the pipe that forms a part of the station beginning with the suction main and going on through the intricacies of the station and ending with the discharge into the main. It represents a rather large sum of money.

Q. About how much?

A. Generally speaking, from 10 to 15 per cent. I can tell you more specifically as related to these stations. In these stations the pipe valves and fittings represent almost 42,000 out of a total of \$338,000. That is more than the 10 per cent figure I mentioned.

Q. Can you think of any other reasons why pumping stations of Canadian River are so much more depreciated than those of Colorado Interstate?

A. The fact that it was found on some examinations really is controlling.

Q. I want to know what proof you have, what evidence you have that the Canadian River pumping equipment is operated more than the Colorado Interstate pumping equipment.

A. Well, I haven't checked into the details, but I explained to you the characteristics of pipe lines that have the varying load that this Denver line has. They certainly don't operate engines just for the fun of it. They operate them when they need them. I know from having been out here that Colorado Interstate's stations for the most part have been practically cut down cold all summer long.

They are just winter stations. The Clayton station has been running more than the others. The field station on any pipe line that puts the gas into the line has to run all the time unless the suction pressures happen to be high enough to avoid it. That has happened at times here.

Q. Did you take that into consideration when you put a greater depreciation on the station?

A. No, not specifically.

I have explained to you that the depreciation we put on this equipment is that which was found there. It wasn't theorized on how many hours it was run. That was known to be sure, but going into the stations you can very easily find the operating records of the station.

There again it is not a specific factor where you write the station down for so many per cent for each hour the engine runs. You don't do that, but I explained these conditions in answer to your inquiry. Do you know any reasons why you would expect to find Canadian River's equipment depreciates more than Colorado Interstate's equipment?

Q. The only reason you have here is because Mr. Whittelsey said so?

A. You might put it that way. It was a man thoroughly familiar with the equipment who himself inspected it that said it was depreciated more than that of Colorado Interstate. One learns whom he can trust and can't trust when he has been in the engineering business as long as I have.

Q. On the contrary, we find that Canadian River's pumping station structures—I presume that is the structure over the station—has depreciated much less than the structures of Colorado Interstate Gas Company.

A. Well, I think I have already made a reply to that question but I will be glad to give it again if you would like to have me do so.

Q. Is that just because Mr. Whittelsey said so, is that right?

A. No.

Q. Because Mr. Cooke said so?

A. No.

Q. What else did you have to go on?

A. I had to go on this: The Canadian River's compressor station's buildings are limited to compressor station buildings proper which are steel structures with asbestos siding that does not deteriorate rapidly, whereas, Colorado Interstate's compressor station structures include also the housing of the employees which does deteriorate more rapidly than the steel buildings. That is the reason you should expect to find more deterioration. Of course, these figures of mine are not based just on the say-so of men, they are based upon the determination made by careful inspection by men who know what they are talking about.

Q. So any man with common ordinary sense would know that the concrete structures depreciate at a slower rate than the wooden structures?

A. Generally, yes.

Q. I direct your attention to Account 352-2, Land Rights, Rights of Way. It is on Page 32.

A. Yes.

Q. I notice here that you have over \$177,000 as reproduction costs new of land rights, rights of way, haven't you?

A. Yes, that is correct.

Q. However, I believe you have already testified that you took the original cost there instead of the amount of funds it would be necessary to secure that property today?

A. In a broad sense, yes.

Q. What is it?

A. I took the amount they paid for the rights of way plus damages.

Q. Plus damages?

A. Yes.

Q. Why did you do that?

A. Because I considered that the damages paid to the farmers were just as much a part of the right of way as anything else. The damages have little relation to the fact but are more concerned with the trading ability of the farmer.

Q. My question was directed to why did you take the original cost rather than the reproduction costs new?

A. Why—

Q. The same answer you gave in regard to the other?

A. Yes. I explained it two or three times.

Q. I will ask you if you made any effort to ascertain the reproduction costs new of these land rights of way?

A. No. As I explained it before, the price paid is the best evidence of the cost of reproduction.

Q. All right.

Let's have the working papers pulled out here on the land. I think it is in an envelope labeled "Land and Land Rights." What page is your breakdown here of land rights in this exhibit on?

A. Land rights or rights of way begins on Page 41.

Q. I am interested in the land account 352-2.

A. That is where it begins, on Page 41.

Q. And—2, both?

A. Yes.

Q. Do you have the working papers on that?

A. I think so. I have 351-1 here.

Q. I hand you your working papers and I will ask you to identify a letter, stating from whom it was written and to whom that letter was addressed.

A. This is a letter from the Clayton Abstract Company, Inc. to Ford, Bacon & Davis, Inc., 39 Broadway, New York City.

Q. The date of the letter is what?

A. October 17, 1930.

Q. Will you read the letter, please, Mr. Rhodes?

A. This is a letter addressed to Ford, Bacon & Davis, Inc., 39 Broadway, New York City, relative to the Colorado Interstate Gas Company's Clayton compressor station site and the Certificate of Appraisal. It reads:

"Agreeable to your assignment we have reviewed the following described real estate, viz:

"The North half of the Northwest quarter of the Northwest quarter (N $\frac{1}{2}$ NW $\frac{1}{4}$ NW $\frac{1}{4}$) of Section eleven (11), and the Southwest quarter of the Southwest quarter (SW $\frac{1}{4}$ SW $\frac{1}{4}$), of Section two (2), in Township Twenty-six (26) North, Range Thirty-six (36), East, N.M.P. Meridian, (60 acres)

and estimate the aggregate value of the same, at existing market, to be Six Hundred and Ninety (\$690.00) Dollars.

"This appraisal is of the land only, as it now exists, ignoring buildings or other structures of any nature thereon, but giving consideration to existing adjacent highways, general topography and accessibility. The valuation given is our estimate thereof as of December 31, 1938, and at the present time no change in value occurring during the interim.

"In making this appraisal no survey of the premises or search of the title has been made. It is assumed that the title is good, that the description as recorded is a proper description of the legal boundary lines and that no restrictions have been violated; that the property is free and clear of liens and/or encumbrances.

"No consideration has been given to the shrubbery, landscaping, or other improvements, sewer, water system, or other installations, upon or under the surface of said lands, incident to or used in connection with, the operation of said compressor station.

"CLAYTON ABSTRACT COMPANY, Secretary."

I can't read the man's name but it is signed as "Secretary."

Q. I thought you just got through telling me you had made no effort to ascertain the reproduction costs new of this property.

A. You were asking me with respect to the rights of way. Furthermore, I stated that I considered the actual cost of this property in the aggregate to be a better measure of value than any other.

Q. So you do want to modify your answer to admit that you made some efforts to ascertain the market value of the property, what it cost you to get the property?

A. Personally I didn't. I reached the conclusion myself, being familiar with the territory, that cost was a better measure of value.

Q. This letter wasn't written pursuant to your instructions?

A. No. My recollection is that these letters were written in accordance with a common practice in our organization to find out what the prices of property are—what they are currently assigned to the property.

Q. I want you to turn to the item listed at \$690 under date of December 31, 1938 and I want you to turn to the item in your breakdown and tell us what value you have assigned to the property in your report here.

A. That property was valued at \$1740, its cost.

Q. Are there any more instances where your company tried to find out the appraised value of this property?

A. I don't know. You have seen the working papers and I never saw that letter before.

Q. You didn't even consider these working papers?

A. I haven't seen the working papers on this job for some time and I have paid no attention to any letters of appraisal because I considered that no appraisers, even the Clayton Abstract Company, Inc. in Clayton, could tell about

a site located ten miles from a city surrounded by open prairies.

Q. Why did your firm ask for the information?

A. I have already explained that we get those appraisals as a matter of routine.

(Vol. XIII, pp. 1781-1805.)

Q. Let's see how much you have this communication equipment depreciated. You have it depreciated 16 per cent, don't you?

A. That is right.

Q. All right.

You have likewise in your other report gotten it depreciated in regard to Canadian River as 16 per cent, is that right?

A. That is right.

Q. I believe that is the only place where the depreciation on both of the properties is the same, is that right?

A. Yes.

(Vol. XIII, p. 1845.)

Q. Of course, I asked you about the purchasing power of the dollar, not the price of pipe, but I will ask you to tell me the difference between the purchasing power of the dollar and the price of pipe.

A. One expressed in percentage is the reciprocal of the other.

Q. Was there any 22-inch pipe in 1910 that was used by gas companies?

A. Very little. 22-inch pipe didn't come into common use until about the mid '20s.

Q. Now, I have just a few more questions here in regard to Page 29.

The cost of assembling the funds required for construction of the properties represents the difference between the amount of money paid by the initial investors for the securities and the amount available to the new company to meet the requirements of its construction program. I will ask this question:

In making this study, did you at all consider what the cost of financing was to the Public Service Company of Colorado?

A. No.

Q. Do you know that their cost of financing instead of being 4 per cent was—the cost of refinancing was 2.92 per cent and 2.40 per cent?

A. No.

Q. Do you know that in 1939 the cost of financing the Panhandle Eastern Pipe Line Company instead of being 4 per cent as you have it here was 2.61 per cent?

A. I think you are asking me questions as to things which are not so. You are reading from one of the Securities and Exchange Commission reports to which I had referred, which gives the cost of financing of certain parts of the financial structure of the company and not the whole cost of financing for all of the money required to build the properties.

Q. In other words, these are refunding costs—cost of refunding issues and not the cost of financing a new property?

A. What I had primarily in mind is that they do not cover all of the financial structures and all of the securities of the company; only a part of them, the underlying securities, security issues that are mostly bonds. In many cases they are very much the underlying bonds.

Q. This list that was being read from was the refunding of bond issues?

A. Yes, as I say—

Q. The cost of the refinancing of the refunding of the bond issues?

A. The cost of the refinancing of the refunding of the bond issues is not the cost of financing a whole property. It is only the part of it that is the easiest to finance.

(Vol. XIV, pp. 1871-1873.)

Q. In order to compute the cost of financing, what information would you have to have before you?

A. The Commission's statement as to the price of offering to the public or the price at which they were sold to the public, and also the statement as to the net yield to

the company. The Securities and Exchange Commission in its report shows both of those figures and also shows the price to the underwriter.

Q. That is all the information you would have to have before you in order to compute your cost of financing?

A. With respect to any issue, yes.

Q. All right.

I direct your attention to the Securities and Exchange publication for the Public Utilities Division secured issues of electric and gas utilities, from 1935 to 1939. Now, I direct your attention here to the Public Service Company of Colorado where it is listed.

It is first mortgage three and one-half per cent, 1964; bond issue, \$40,000,000, November 28—just a minute. Let me get my tracer so that I can trace it through more accurately.

\$40,000,000, November 28, 1939; price to underwriter, amount 100; per cent, 3.50. Net cost to company, 99.12 per cent. Per cent cost, 3.55 per cent. Price to public, amount 102; yield, 3.38 per cent.

Now, I understand that is all of the information you would have to have before you in order to compute the cost of financing of these bonds?

A. Of that issue, yes.

Q. All right, Let us see you do it.

A. Well, the price to the public is 102 even. The net price to the company was 99.11. The spread between the price to the public and the net price to the company is 2.89 per cent—2.89. To get that into the cost of financing you divide that by .9911 which would bring it up to a little over three per cent.

Q. 3.0 per cent?

A. I haven't calculated it.

Q. It is 3.01 per cent?

A. Now, I was making a short-cut, and an approximation there that was wrong. My approximation was wrong. It is about 2.92 per cent. That was the cost of financing of that \$40,000,000 issue.

Q. Is there anything here you didn't have before you

when you were computing the cost of financing this new company in so far as bonds were concerned?

A. As I told you, I took a 4 per cent figure which is lower than the average cost of all financing. I didn't compute it specifically.

Q. Now we will take another one of these gas companies—

A. The Public Service Company of Colorado, by the way, is only in a small measure a gas company.

Q. Oh, yes.

A. It is an electric company.

Q. Yes, that is right, but in your nine billion dollars there is not only included gas companies but it includes everything from electric utilities to companies engaged in the canning business, isn't that right?

A. That is true, but you are referring to a very large issue of that group of industries which enjoys a very low cost of financing, and furthermore, you are referring to underlying bonds rather than the whole property.

Q. All right. Take one company. Would you say the Northern Natural Gas Company was engaged in a similar business to this business here of the Colorado Interstate Gas Company?

A. Yes, quite similar.

Q. All right.

I refer you—

Mr. Campbell: Mr. Examiner, I wonder if the Examiner and Mr. March would object to a question from us from time to time here to avoid a misunderstanding?

Mr. March: Feel free to do so when—just as soon as I get through with this you can ask any question you want to.

Mr. Campbell: I don't want to interrupt you, Mr. March.

Mr. March: Feel free to ask questions.

Mr. Campbell: I would like to ask, before you leave the Public Service Company of Colorado, whether you know they also have in addition to the bond issue refunded a large issue of preferred stock and a very large issue of common stock?

Mr. March: Refinanced?

Mr. Campbell: That would have to be refinanced if you refinanced the Colorado Public/Service Company.

Mr. March: I haven't made any study at all of the corporate structure of the Public Service of Colorado.

• Mr. Campbell: That is a fact.

Mr. March: If he wants to testify, we would be glad to put him on the stand.

Q. I refer you to Page 7 of the same report which has the Northern Natural Gas Company bond issue, first mortgage, and first lien series A, 3-1/2 per cent, 1954, principal amount, \$16,000,000; approximate date of offering, August 15, 1939; net price to company, 98.84 per cent; cost 3.35; cost to the public, amount 100; yield, 3.25 per cent. Can you compute the cost of financing of that issue?

A. Well, the price to the public was 100; the net yield to the company was 98.84. The spread is 1.16, and the cost of financing of that issue subject to a note that we must investigate, is the apparent cost of financing, is about 1.18 per cent. There is a Note P, however, mentioned in the price to underwriters: "Private sales to insurance companies and others, market prices are indicated where same security is outstanding with the public."

That is not a public offering in the sense that they have to have the same kind of a spread that is involved in the ordinary case.

Q. Well, we'll take the Oklahoma Natural Gas Company. The Oklahoma Natural Gas Company, I referred to you, is a bond issue, first mortgage, Series B, 3-3/4 per cent, 1955; principal amount, \$17,000,000, August 17, 1939, approximate date of offering; price to underwriters, 101—amount, 101.50; cost per cent, 3.63 per cent; net price to company, amount 100.88.

Cost per cent, 3.68; price to public, 103.50; yield per cent, 3.46 per cent.

A. Well, the spread between the price received by the company and the price to the public was 2.62. Dividing

that by the 100.88, the figure received by the company, gives approximately 2.6 per cent as the cost of financing of that issue.

Q. Now, how much bonds would you have to float in order to finance this proposed new Colorado Interstate Gas Company?

A. I haven't figured it out.

Q. Well, when you secure funds, you usually secure most of the funds by bond issues?

A. Well, there is a very conceivable combination of bonds—preferred stock and common stock has been used in the financing of companies.

Q. Yes.

A. —and it would be necessary to go to the investment bankers to find out what should be the corporate structure of such a property to get the lowest cost of money.

Q. You wouldn't know yourself, of course, what the corporate structure would be?

A. No, that would depend on negotiations entered into at the time.

Q. What is usually the corporate structure of one of these independent companies?

A. There isn't anything usual about it. The tendency is to finance pretty generally with bonds and preferred stock and have the common stock reflect the earning power over and above the coupon rates, but what would be done today I don't know.

Q. When the Colorado Interstate Gas Company was organized, do you know how much bonds—originally organized, do you know how much bonds it was necessary for it to issue?

A. I don't recall.

Q. You didn't give that any consideration?

A. No.

Q. This hypothetical new company would construct a property very similar to the one originally constructed by the original Colorado Interstate Gas Company, wouldn't it?

A. On reproduction of the property, yes.

Q. On Page 26, is bond discount included in the per cent here?

A. No, bond discount is the difference between the price received by the company and the par value, or face value

of the bonds. It has none but an indirect relation to the cost of financing.

Q. How do you know that to be so?

A. It is a necessary result. The cost of financing is the difference between the price received by the company and the price at which the security is issued to the public. The company might receive a hundred and one for the bonds and the public pay a hundred and five and there would be a premium on the bonds, or the public might receive—I mean the company might receive a hundred and it would be offered at one hundred five and there wouldn't be any bond discount, but on the other hand the company might get ninety and be sold to the public for ninety-five; then there would be a bond discount of ten points, whereas the cost of financing was only five points.

Q. You gave no consideration to that probability in regard to bond discounts?

A. That doesn't enter into the cost of financing except as the bankers may find the best combination of coupon rate and offering price to the public to result in the lowest cost of money.

(Vol. XIV, pp. 1876-1884.)

You have this office furniture and equipment in your Canadian River exhibit depreciated approximately 29 per cent and in your Colorado Interstate Gas Company exhibit you have it depreciated 20 per cent. Can you give me any reason why that difference?

A. None, except the opinion of the furniture expert who determined it for us.

Q. You had different furniture experts determine the Canadian River than Colorado Interstate, is that right?

A. Yes, and in each case it was a local man.

Q. You have made no check on these?

A. No, I haven't checked that.

Q. You don't know—you didn't know anything about the record of the use of this furniture in either properties?

A. No.

Q. Yet you did change the percentage, did you not?

A. If I recall correctly, I increased the percentage that was given by these men to make sure that it covered things they might have overlooked.

Q. Let's check and see if you did. Get his working papers out on that. Let's check on your Colorado Interstate first here.

A. Now, in Account 372, Office Furniture and Equipment, the percentage reported to me was 17 per cent depreciation.

Q. Colorado Interstate Gas Company?

A. That's right.

Q. Your sole reason for increasing it to 20 per cent was because you wanted it to be liberal?

A. I tried to make my depreciation allowances liberal, yes.

Q. Are there any other cases where you increase the percentage in any of the items here?

A. Which item?

Q. Depreciation items, account items.

A. Why, I followed that practice generally.

Q. You recall yesterday we found one case where you had decreased the percentage.

A. No, as I explained, I had misinterpreted my notes and I was comparing poles with poles, plus some of the fixtures where some of the fixtures weren't as much depreciated. I explained that already, but I know it was in the final overall figure for the account I did adjust upwards in depreciation.

Q. Did you increase the pipe, too, on this?

A. Yes, the figure found for the pipe by usual methods was 3 per cent depreciated which was what the field observations clearly indicated. I increased it to 5 per cent.

Q. Do you recall whether you did the same thing with regard to the Canadian River or not?

A. Yes, that was increased from 5 to 7.

Q. So all of the men who actually examined the property were wrong to approximately, on an average, of 2 per cent?

A. No, I won't say they are wrong. All I say is that I wanted to include in this reproduction costs new less depreciation an ample allowance for all of the depreciation that existed in the property.

Q. Well, in other words, if the men who gave you the report that the pipe was only depreciated approximately 3 per cent and you said it was depreciated 5 per cent—2

percent more—then, who do you think is right, you or the men who actually observed it?

A. Well, we're both right. I tried to give an outside figure. They reported on what they found. You don't see everything when you inspect a property. There are things that are hidden that you can't see without an undue amount of expense, and I have made it a practice to increase the observed amount of depreciation to reflect those things which escape the men in the field.

Q. So you would say, then, that on the average you would increase—if you had used the figures reported to you, you would have increased each accumulated depreciation item approximately 2 per cent?

A. Why, I don't know. I haven't thought of it that way. I have taken item by item and considered the nature of the inspections and made an adjustment to reflect those things which I think may well have escaped the men making the observation.

Q. What could have escaped them that you gave consideration to?

A. Well, if I knew specifically, why it would have been reported by them.

Q. What did you know about the depreciation of the pipe which the men actually making the examination didn't know.

A. The men that made the examination did nothing but measure the depth of the pits and record facts. Those facts were analyzed with the indication that the amount of depreciation was 3 per cent. If they—

Q. You—

A. Now, let me finish.

Q. Yes. Pardon me.

A. —instead of measuring the number of sections of pipe they did measure, they spent twice as much money and examined twice as many places, the figures as to pit depths that they obtained would be somewhat more dependable. There would be less chance for their having missed some depreciation. That's one of the things, but my prime consideration in determining the percentage of depreciation in here was to have it big enough—in other words, to show the most that I thought could be found in the property.

Q. How long would you say this pipe line would last if it has been running since 1928 and has only depreciated 5 per cent?

A. I couldn't quite hear you because you had your hand over your mouth. Did the reporter get it?

Mr. March: Read it.

(The question referred to was read by the reporter, as set forth above.)

The Witness: Why, the pipe line will last just as long as the company wants to keep it up.

By Mr. March:

Q. At the rate the company is keeping it up now, how many years would you say it would last?

A. Well, now, that depends on what you mean by the rate at which the company is keeping it up now. The company is keeping it up, replacing everything that needs to be replaced as fast as it needs to be replaced and if they continue in that policy which is the rate of maintenance or repair, or what you want to call it, the pipe line will last just as long as they keep up that practice.

Q. Did you give any consideration in determining the depreciation of this pipe to the replacements which the company has been forced to make since 1928?

A. They are relatively negligible.

Q. Did you give any consideration to them?

A. No. Anything that they may have done would be reflected in this overall result, however, subject to—as I pointed out before, the effect of the number of points of inspection.

Q. You didn't consider whether or not certain portions of the line had to be replaced or the actual replacements?

A. This figure takes into account what is there now, but it also takes into account the fact that some parts of the pipe will unquestionably have to be replaced before other parts of the pipe and that some parts of the pipe may last a very very long period of years.

Q. How long would this pipe line have to operate before it would be necessary to have replaced—would have been necessary to have replaced all of the pipe?

A. Why, I don't know, but several hundred years, probably.

Mr. March: That's all for the present.

Mr. Campbell: I have some redirect, if the Examiner please.

Redirect Examination.

By Mr. Campbell:

Q. Mr. Rhodes, Commission's counsel on cross examination handed you a publication of the Utilities Division of the Securities and Exchange Commission entitled "Security Issues of Electric and Gas Utilities, 1935, '36, '37, '38 and '39." Is that correct?

A. Yes.

Q. He asked you certain questions about the following companies listed in that document: "Public Service Company of Colorado;" is that correct?

A. That's correct.

Q. He had reference particularly to a \$40,000,000 bond issue that was refinanced, is that correct?

A. Yes.

Q. Do you know whether that company has in addition to that capital security, common stock?

A. Yes, but how much I don't know.

Q. Do you know whether they have preferred stock?

A. I so understand, but I do not know how much.

Q. Do you know whether they have other bonds than that issue?

A. I do not know.

Q. Then you wouldn't be prepared to state that that \$40,000,000 bond issue represented all of their capitalization?

A. I'm sure that it would not.

Q. He also asked you about the Panhandle Eastern Pipe Line Company, and particularly to a 4 percent bond issue. Do you know whether that 4 per cent bond issue represents all their capitalization?

A. What is the size? I have forgotten—\$24,000,000 couldn't possibly represent all of the financing of that property.

Q. Will you examine this same document that we are

talking about, under the description here, and state for the record the nature of those bonds?

A. Panhandle Eastern Pipe Line Company, first mortgage and first lien, 1952.

Q. You are not prepared to say then, whether that bond issue represents all of their capitalization?

A. I'm sure it does not because \$24,000,000 couldn't possibly finance the whole of the cost.

Q. Didn't he ask you about Northern Natural Gas Company bond issue—and I ask you to—pardon me. I will ask you to refer to that same document and read the description of that particular issue.

A. Northern Natural Gas Company, Notes 2-1/8 per cent, 1940 to 1946.

Q. The amount of them?

A. \$6,000,000.

Q. Do you know whether that \$6,000,000 represents all of their capitalization?

A. It does not.

Q. He also referred to Oklahoma Natural Gas Company bonds of a certain description. Now, I refer you to this same document and ask you to read from that document a description of 22,200 shares of 6 per cent prior preferred stock.

A. Well, that was prior preferred stock convertible, 6 per cent, \$100 par.

Q. What was the price of that stock to the underwriters, as it is listed in this document?

A. The price to the underwriters was 96 even.

Q. And the cost in percentage to the underwriters?

A. 6.25.

Q. Now, what is shown in this document under the column "Net Price to Company"?

A. Note—

Q. Will you read that note?

A. "Offered for the account of others."

Q. And price to the public in that document is shown to be what?

A. 100.

Q. And the yield to the public?

A. 6 per cent.

Q. I want you to make a similar calculation as to the cost of financing that issue.

A. Well, the cost of financing that issue in the sense of the cost to the company is not determinable. These notes—I mean this stock offered to the public was not sold for the account of the company but for the account of some other owner and the price received by the owner of the stock is not disclosed but the bankers' spread from 96 to 100 is four points, making that rather over four per cent in terms of the price paid by the underwriters. That, however, is not all of the cost of financing.

Q. Now, referring to this same document, I refer you to another issue of Oklahoma Natural Gas Company, 5-1/2 preferred stock. Will you read the descriptive text on that particular issue from that document?

A. This is Oklahoma Natural Gas Company, cumulative prior preferred stock, convertible, \$5.50, no par.

Q. Will you continue reading the other descriptive matter as to the price to the underwriters and the net price?

A. The price to the underwriters was 101 even. The net price to the company was 100.48 and the price to the public was 104. The cost of financing was the difference between 100.48 and 104, a little over three and a half—about three and a half per cent is the cost of financing that particular issue of 2,200 shares—no, 58,000 shares.

Q. I hand you this same document and I will ask you to read a description of the New Mexico Gas Company 5 per cent bonds as therein reported.

A. This is the New Mexico Gas Company, first mortgage convertible, Series A, 5 per cent, due 1951—there is a note which I will refer to later—the par value of it being \$1,500,000. The price to the underwriters was 94. There is a Note L that indicates that they were offered not for the account of the company but for the account of others, so we don't know what the company received.

The offering price to the public was 99, the bankers' spread being 5 points. The whole cost of financing is not determinable.

Mr. March: You say that is not determinable?

The Witness: Not in that because it was not offered for the account of the company.

By Mr. Campbell:

Q. But you did state the bankers' spread?

A. That is right.

Q. I will ask you to refer to that same document and read the description with respect to this same company; that is, the New Mexico Gas Company issue of 6 per cent preferred stock.

A. The New Mexico Gas Company cumulative preferred stock, convertible 6 per cent, \$50 par, 8,000 shares. The price to the underwriters was 40.

Q. State the par value of it.

A. \$50.

Q. Is that shown in that document?

A. That is shown in that document.

Q. Proceed.

A. The price to the underwriter was \$50—no, \$40, and the net price to the company was the same.

Q. For the record, convert the par and offering price to one hundredths or percentage thereof.

A. On the basis of 100 points, the price to the underwriter was 80 and the net price to the company was 80.

Q. Proceed.

A. The price paid to the public in terms of the \$50 par was 45 and in terms of 100 points was 90, the cost of financing in that case being the difference between 80 and 90 or 10 points. The cost of financing is 10 points divided by the 80 received by the company which makes it 12½ per cent for the cost of financing.

Q. You stated there, I believe inadvertently, that the cost paid to the public—

A. The price to the public, offered to the public.

(Vol. XIV, pp. 188-1896.)

Q. I refer you to that same document we have been discussing and I will ask you to read the description of an issue of the company, the Kansas Pipe Line & Gas Company, 5 per cent bonds due in 1952.

A. This issue of the Kansas Pipe Line & Gas Company, first mortgage sinking funds, 5's due in 1952, is in the amount of \$1,000,000. The approximate offering date was March 19, 1937. The price to the underwriter was 95; net price to the company, 93.86; the price to the public was 100.

Q. Approximately what would be the cost of financing there calculated according to the rule or principle that you have already here described?

A. About 6 6/10 per cent.

Mr. March: Just a minute.. Will you state the date here?

The Witness: I did read it.

Mr. March: I didn't hear it. Please read it again.

The Witness: March 19, 1937.

By Mr. Campbell:

Q. Referring to that same document, I will ask you to describe the issue of the Kansas Pipe Line and Gas Company common stock.

A. The Kansas Pipe Line & Gas Company common stock, \$5 par value, number of shares, 110,000; approximate offering date, August 27, 1936; the price to the underwriters, 4.82 as compared with the \$5 par. The price to the company was 4.73 and the offering price to the public was \$5.

Q. Now will you compute the cost of financing that issue in accordance with the principle that you have described here?

A. That was 5 8/10 per cent.

(Vol. XIV, pp. 1899-1900.)

Q. Will you refer to that same document and describe the El Paso Natural Gas Company's issue of 4 1/2 per cent bonds?

A. The El Paso Natural Gas Company, first mortgage 4 1/2 due 1951, seven and a half million dollars, approximate date of offering June 4, 1936; price to underwriters, 95.50; the net price to the company, 94.14, and the price to the public, 98.50.

Q. Tell us what the cost of financing that issue was in accordance with the rule that you have described here.

A. Well, the total spread between the net price to the company and the price to the public is the difference between 94.14 and 98.50 which is 4.36. That, based on the net price to the company, shows a cost of financing of about 4.63 per cent.

Q. Referring to that same document, will you read the description as to the El Paso Natural Gas Company $4\frac{3}{4}$ bonds?

A. These are El Paso Natural Gas Company convertible debentures, $4\frac{3}{4}$ per cent, due 1946, and in the sum of \$3,750,000; approximate date of offering, June 4, 1936; price to the underwriters, 96.5; net price to the company, 95.16; price to the public, 100.

Q. Will you calculate the cost of financing that issue in accordance with the rule you have here stated?

A. The spread between the price to the public and the net price to the company is 4.84 per cent. This divided by the percentage yield to the company of 95.16 shows a cost of financing of 5.08.

Q. And referring to that same document I will ask you to read the similar description with respect to the El Paso Natural Gas Company's common stock.

A. The El Paso Natural Gas Company's common stock is at a \$3 par. There was 60,000 shares offered on approximately September 10, 1936. The price to the underwriters was 19. The stock was offered for the account of somebody else other than the company and the price to the public was 20. We do not know there the cost of financing. All we know is the bankers' spread.

Q. Now, I believe you have already testified on your direct testimony that you and your subordinates accumulated all of the available data from the Securities and Exchange Commission and that that data included not only the gas companies but electric companies, and in fact, all types of industry, is that correct?

A. I accumulated all the data I could find up to and including 1938.

Q. And you arrived at your figure of 4.35 per cent on the basis of all of the issues so reported by the Securities and Exchange Commission?

A. That is true.

Q. Now, from your examination of those documents, did you discover whether or not those issues included not only bonds but preferred and common stock?

A. They did.

Q. In determining your reproduction costs new you assumed a new and independent company, is that correct?

A. That is right.

Q. I will ask you from your experience in the natural

gas business which you have already testified to here at great length about, as to whether or not it would be reasonable to expect that such a company could go and borrow from the public 100 per cent of the cost of the project?

A. I don't think it could.

Q. Could you borrow 100 per cent of the cost of building a house for yourself?

A. No.

Q. Do you, therefore, assume that a company would have to finance part of the cost of the project with a common stock issue?

A. I am sure it would.

(Vol. XIV, pp. 1901-1903.)

Q. Then I will ask you this question: Your reproduction costs new are not based on any assumption as to who would be the contractor if there was a contractor?

A. That is correct. I made no assumption as to who would do it except that the company owning it would be an independent operation.

Mr. March: Just one question here.

Recross Examination.

By Mr. March:

Q. Mr. Rhodes, I hand you a document that I examined as a part of your working papers. I will ask you if that is correct?

A. I believe this is some of the prices requests and applies to the Hope Natural Gas Company work which was shown to you at your request.

Q. Which you utilized for some of those quotations of this reproduction costs new exhibit?

A. We used them for the purpose of checking those we used in the exhibits.

Q. You didn't use any of these?

A. Well, they are identical. I wouldn't be willing to say whether I used these or those. We calculated it from the list price discounts. They were identical anyway.

Q. As to the work considered, I refer you to this letter in your working papers. Will you state to whom and from whom this is addressed?

A. This is a letter from the Jones & Laughlin Steel Corporation to the Hope Natural Gas Company.

Q. The date of the letter is what?

A. May 3, 1939.

Q. Will you read the last sentence in the second paragraph?

A. It states: "Our sales are made only at delivered prices; therefore, these basing point prices are to be construed as submitted only for estimating purposes."

Q. Whose handwriting is on that letter?

A. One of my men's handwriting. I don't know which one it is. I don't recognize it specifically, but the note says "Jones & Laughlin prices reflect ten per cent discount on large quantities but do not reflect ten per cent on small quantities, but do not reflect two per cent cash discount."

Q. The quotations of Republic Steel and Jones & Laughlin Steel Corporation, did they differ very much?

A. It just depends upon if you apply all of the discounts. Some of the people give you all of the discounts, including the ten per cent for bulk purchases, and some of them don't. Until you find out what they include and compare them, they mean nothing. Spang Chalfant gave the ten per cent bulk discount to the large items but not the small—I mean Jones & Laughlin Steel Corporation.

Mr. Brock: Instead of Spang?

The Witness: Yes.

Commonly in getting the prices they do not apply the ten per cent bulk discount.

(Vol. XV, pp. 2098-2100.)

A. Well, we have an estimate here for Colorado. If I recall correctly, five per cent covers all those delays.

Q. Now, I believe originally Mr. Hill, when he estimated cost of constructing this line to Denver, over estimated the cost of the line because he had been used to constructing lines down in the rainy parts of Louisiana, is that correct?

A. That is an assumption on your part that that was the cause of it. I asked him what was the cause of it and he said, "Well, I just went over the line and I put a figure down to have in mind when I was comparing the bids."

He made no detailed estimate.

(Vol. XV, pp. 2070-2071.)

A. COMPARISON OF
SECTIONS IN RESPONSE
DURING THE

Line Number	Description (1)	Outside Diameter Of Pipe (Inches) (2)
1.	Main line from Bivins Compressor Station to Texas-New Mexico state line	22
2.	Main line from Bivins Compressor Station to Texas-New Mexico state line	22
3.	Main line from Texas-New Mexico state line to Clayton Compressor Station	22
4.	From main line to Dalhart, Texas	6-5/8
5.	From main line to Texline, Texas	2-3/4
6.	From main line to Clayton, New Mexico	4-1/2
7.	From main line to Clayton, New Mexico	3-1/2
8.	Total of above	
9.	Allowance due to large volume purchases	
10.	Net cost of pipe delivered(b)	

Notes: (a) Data in columns 1, 2, 3, 4, 6, 8a, 12, and 13, are from Exhibit (C) and its supplements.
(b) Total cost of pipe delivered (columns 11 and 13) excludes New Mexico sales taxes.

B. COMPARISON OF
IN RESPONSE
LENGTH PIPE

Line Number	Description (1)	Outside Diameter Of Pipe (Inches) (2)
11.	Main line from Bivins Station to Texas-New Mexico state line	22
12.	Main line from Bivins Station to Texas-New Mexico state line	22
13.	Main line from Texas-New Mexico state line to Clayton Station	22
14.	Total cost of couplings delivered(a)	

Notes: (a) Total cost of Style 38 Dresser couplings (columns 8 and 14) excludes New Mexico sales taxes.

Canadian River Gas Company

REPRODUCTION COST OF LINE PIPE, AS OF DECEMBER 31, 1935,
FORBENT'S EXHIBIT 68, WITH ACTUAL LINE PIPE COSTS PREVAILING
PERIOD FROM DECEMBER 1930 TO SEPTEMBER 1940

Summary of Pipe Cost by Federal Power Commission (a)									
Weight Per Foot (Pounds)	Quantity (Feet)	Weighted		Delivered		Cost		Net Cost	
		Average Price Per Ton	P.O.B. Mill	Average Freight Rate Per Ton	Delivered	Miscellaneous Costs	Per Ton	Delivered	Per Ton
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
86.6	272,536	44.25		18.10	62.35	2	1.25	63.90	2.70
79.5	171,734	44.25		18.10	62.35	2	1.25	63.90	2.70
79.5	12,263	44.25		18.10	62.35	2	1.25	63.90	2.70
12.99	5,011	49.24		18.10	67.34	3-1/2	2.37	70.01	0.45
3.65	20,759	49.24		18.10	67.34	3-1/2	2.37	70.01	0.45
10.79	8,149	49.24		18.10	67.34	3-1/2	2.37	70.01	0.45
7.57	28,208	49.24		18.10	67.34	3-1/2	2.37	70.01	0.45

working papers.

and "undistributed construction costs".

Canadian River Gas Company

REPRODUCTION COSTS OF STYLE 38 DRESSER COUPLINGS, BROWN
T'S EXHIBIT 68, WITH COSTS BASED ON USE OF MOBILE PLANT

Summary of Dresser Coupling Cost per Exhibit 68							
Length of Line (Feet)	Average Joint (Single Random) (Feet)	Number of Style 38 Dresser Couplings (5)	Middle Ring (Inches) (6)	Unit Cost of Couplings Delivered (7)	Total Delivered		Total Delivered Cost of Couplings Using Random Pipe (9)
					Using Single Random Pipe (8)		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
272,536	18.9	11,117	3/8	10.33	156,657		79,122
171,734	18.9	9,031	11/32	10.21	92,717		12,355
12,263	18.9	449	11/32	10.21	4,582		2,211
					253,956		120,100

less taxes and "undistributed construction costs".

Canadian River Gas Company

Statement No. 1

A. COMPARISON OF REPRODUCTION COST OF LINE PIPE, AS OF DECEMBER 31, 1938,
SHOWN IN RESPONDENT'S EXHIBIT 68, WITH ACTUAL LINE PIPE COSTS PREVAILING
DURING THE PERIOD FROM DECEMBER 1938 TO SEPTEMBER 1940

Summary of Pipe Cost by Federal Power Commission(a)													Respondent's Exhibit 68	
Outside Diameter Of Pipe (Inches)	Weight Per Foot (Pounds)	Quantity (Feet)	Weighted Average Price Per Ton P.O.B. Mill (\$)	Weighted Average Freight Rate Per Ton (\$)	Cost per Ton, Delivered (\$)	Miscellaneous Costs \$/Ton (b)	Net Cost per Ton, Delivered (\$)	Net Cost Per Foot, Delivered (\$)	Total Cost of Pipe, Delivered (\$)	Net Cost per foot, Delivered (\$)	Total Cost of Pipe, Delivered (\$)			
(2)	(3)	(4)	(5)	(6)	(7)	(8a)	(9)	(10)	(11)	(12)	(13)			
ne 22	86.6	272,536	44.25	18.40	62.65	2	1.25	63.90	2.767	754,107	3.734	1,017,543		
ne 22	79.5	171,734	44.25	18.40	62.65	2	1.25	63.90	2.540	436,204	3.422	590,781		
ion 22	79.5	12,263	44.25	18.40	62.65	2	1.25	63.90	2.540	31,148	3.422	46,056		
	6-5/8	12.89	5,041	49.24	18.40	67.64	3-1/2	2.37	70.01	0.451	2,277	2,002		
	2-3/8	3.65	20,739	49.24	18.40	67.64	3-1/2	2.37	70.01	0.126	2,655	2,125		
	4-1/2	10.79	8,439	49.24	18.40	67.64	3-1/2	2.37	70.01	0.378	3,199	2,449		
	3-1/2	7.57	28,208	49.24	18.40	67.64	3-1/2	2.37	70.01	0.265	7,575	6,044		
									1,237,052	0.31	6,044	1,670,973		
												1,535,973		
									1,237,052			1,535,973		

and its supporting working papers.

exico sales taxes and "undistributed construction costs".

Canadian River Gas Company

B. COMPARISON OF REPRODUCTION COSTS OF STYLE 38 DRESSER COUPLINGS, SHOWN
IN RESPONDENT'S EXHIBIT 68, WITH COSTS BASED ON USE OF DOUBLE RANDOM
LENGTH PIPE

Summary of Dresser Coupling Cost per exhibit 68							
Outside Diameter Of Pipe (Inches)	Length of Line (Feet)	Average Joint (Single Random) (Feet)	Number of Style 38 Dresser Couplings (5)	Middle Ring (Inches) (6)	Unit Cost, of Couplings Delivered (\$) (7)	Total Delivered Cost of Couplings, Using Single Random Pipe (\$) (8)	Total Delivered Cost of Couplings Using Double Random Pipe (\$) (9)
(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
22	272,536	18.9	11,417	3/4"	10.33	156,657	79,429
22	171,734	18.9	9,081	11/32	10.21	92,717	46,356
22	12,263	18.9	649	11/32	10.21	6,626	2,512
						255,200	128,100

as New Mexico sales taxes and "undistributed construction costs".

A. COMPARISON OF REPRODUCTION COST OF LINE PIPE, AS OF DECEMBER 31, 1938,
SHOWN IN RESPONDENT'S EXHIBIT 70, WITH ACTUAL LINE PIPE COSTS PREVAILING
DURING THE PERIOD FROM DECEMBER 1938 TO SEPTEMBER 1940.

Line Number	Description	Summary of Pipe Cost by Federal Power Commission(a)										Respondent's Exhibit 70		
		Outside Diameter of Pipe (Inches)	Weight Per Foot (Pounds)	Quantity (Feet)	Weighted Average Price Per Ton f.o.b. Mill (\$)	Weighted Average Freight Rate Per Ton (\$)	Cost Per Ton Delivered (\$)	Miscellaneous Costs 1/Ton (\$)	Net Cost Per Ton Delivered (\$)	Net Cost Per Foot Delivered (\$)	Total Cost of Pipe Delivered (\$)	Net Cost Per Foot Delivered (\$)	Total Cost of Pipe Delivered (\$)	
		(2)	(3)	(4)	(5)	(6)	(7)	(8a)	(8b)	(9)	(10)	(11)	(12)	
1.	Main line from Clayton Compressor Station to Devine Compressor Station	22	86.5	543,421	44.25	21.00	65.25	2	1.31	66.56	2.982	1,566,177	3.349	2,091,628
2.		22	79.5	237,894	44.25	21.00	65.25	2	1.31	66.56	2.646	629,468	3.554	840,717
3.	Main line from Devine Compressor Station to Denver Meter Station	20	72.46	350,739	44.25	21.00	65.25	2	1.31	66.56	2.402	842,475	3.173	1,112,895
4.		20	69.70	202,534	44.25	21.00	65.25	2	1.31	66.56	2.187	442,986	2.991	585,584
5.	Main line loop across Spanish River and Buffalo Arroyo	12 3/4	41.51	16,507	44.25	21.00	65.25	2	1.31	66.56	1.381	22,796	1.714	28,493
6.	Sand Creek Loop	10 3/4	31.2	13,173	44.25	21.00	65.25	2	1.31	66.56	1.038	13,279	1.27	16,736
7.	Arkansas River Crossing	14 So. DBX	54.	15,224	49.24	21.00	70.24	2	1.40	71.64	1.934	29,443	2.345	35,700
8.	Huerfano River Crossing	14 So. DBX	54.	9,358	49.24	21.00	70.24	2	1.40	71.64	1.934	17,518	2.345	21,241
9.		10 3/4	33.48	1,466	44.25	21.00	65.25	2	1.31	66.56	1.114	1,611	1.55	1,952
10.	Jimmie Camp Creek Crossing	10 3/4	45.08	2,727	44.25	21.00	65.25	2	1.31	66.56	1.450	3,965	1.762	4,805
11.	From main line to Colorado Fuel & Iron Corporation	16	52.35	54,627	44.25	21.00	65.25	2	1.31	66.56	1.742	107,875	2.273	141,067
12.	From Colorado Fuel & Iron Corporation lateral to Pueblo	16	52.35	7,249	44.25	21.00	65.25	2	1.31	66.56				
13.	From main line to Arapahoe Meter Station	10 3/4	31.20	31,102	44.25	21.00	65.25	2	1.31	66.56	1.038	32,284	1.27	39,500
14.		10 3/4	28.03	7,930	44.25	21.00	65.25	2	1.31	66.56	0.933	7,455	1.207	9,644
15.	From main line to La Junta	8 5/8	19.25	160,001	49.24	21.00	70.24	2	1.40	71.64	0.654	104,641	0.777	124,321
16.	From La Junta lateral to Rocky Ford	8 5/8	19.25	22,346	49.24	21.00	70.24	2	1.40	71.64	0.654	14,508	0.777	17,355
17.	From La Junta lateral to Las Animas	8 5/8	19.25	2,052	49.24	21.00	70.24	2	1.40	71.64	0.654	1,342	0.777	1,594
18.	From main line to Portland	8 5/8	18.25	115,375	49.24	21.00	70.24	2	1.40	71.64	0.654	95,402	0.777	113,345
19.		8 5/8	34.704	2,205	49.24	21.00	70.24	2	1.40	71.64	1.134	2,611	1.319	2,908
20.	From main line to Colorado Springs	8 5/8	19.25	32,755	49.24	21.00	70.24	2	1.40	71.64	0.654	21,422	0.777	25,451
21.	From main line to Aurora	8 5/8	19.25	25,579	49.24	21.00	70.24	2	1.40	71.64	0.654	16,742	0.777	19,890
22.		8 5/8	27.74	707	49.24	21.00	70.24	2	1.40	71.64	0.994	703	1.107	783
23.	From main line to La Junta	6 5/8	12.39	22,189	49.24	21.00	70.24	38	2.46	72.70	0.469	10,407	0.543	12,049
24.	From Rocky Ford lateral to American Crystal Sugar Company	6 5/8	12.39	9,634	49.24	21.00	70.24	38	2.46	72.70	0.469	4,348	0.543	5,231
25.	From La Junta lateral to Las Animas	6 5/8	12.39	105,419	49.24	21.00	70.24	38	2.46	72.70	0.469	49,490	0.543	57,133
26.		6 5/8	21.06	595	49.24	21.00	70.24	38	2.46	72.70	0.766	456	0.833	496
27.	From Las Animas lateral to Fort Lyon	6 5/8	12.39	25,255	49.24	21.00	70.24	38	2.46	72.70	0.469	11,845	0.543	13,713
28.		6 5/8	25.65	2,560	49.24	21.00	70.24	38	2.46	72.70	0.932	1,964	1.015	2,030
29.	From main line to Aurora	6 5/8	12.39	15,983	49.24	21.00	70.24	38	2.46	72.70	0.469	7,496	0.543	8,679
30.		6 5/8	21.06	203	49.24	21.00	70.24	38	2.46	72.70	0.766	155	0.833	169
31.	From Rocky Ford lateral to American Crystal Sugar Company	4 1/2	8.63	9,620	49.24	21.00	70.24	38	2.46	72.70				
32.	From Rocky Ford lateral to Manzanola and Fowler	4 1/2	8.63	14,474	49.24	21.00	70.24	38	2.46	72.70				
33.	From La Junta lateral to Santa Fe Springs	4 1/2	8.63	7,227	49.24	21.00	70.24	38	2.46	72.70	0.414	20,589	0.549	22,884
34.	From La Junta lateral to Las Animas	4 1/2	8.63	149	49.24	21.00	70.24	38	2.46	72.70				
35.	From Arapahoe lateral to Littleton	4 1/2	8.63	1,168	49.24	21.00	70.24	38	2.46	72.70				
36.	From Arapahoe lateral to Englewood	4 1/2	8.63	53	49.24	21.00	70.24	38	2.46	72.70				
37.	From Manzanola-Fowler lateral to Ordway	3 1/2	7.57	55,155	49.24	21.00	70.24	38	2.46	72.70				
38.	From Ordway lateral to Sugar City	3 1/2	7.57	96	49.24	21.00	70.24	38	2.46	72.70	0.275	27,619	0.32	32,139
39.	From Rocky Ford lateral to Manzanola and Fowler	3 1/2	7.57	45,201	49.24	21.00	70.24	38	2.46	72.70				
40.		2 3/8	3.65	21	49.24	21.00	70.24	38	2.46	72.70				
41.	From Ordway lateral to Sugar City	2 3/8	3.65	25,386	49.24	21.00	70.24	38	2.46	72.70				
42.	From Santa Fe lateral to Harvey House	2 3/8	3.65	2,787	49.24	21.00	70.24	38	2.46	72.70	0.133	5,626	0.165	6,479
43.	From main line to Fountain Valley School	2 3/8	3.65	13,068	49.24	21.00	70.24	38	2.46	72.70				
44.	From Aurora lateral to Aurora Meter	2 3/8	3.65	1,006	49.24	21.00	70.24	38	2.46	72.70				
45.	St. Charles River Crossing on Colorado Fuel & Iron Corp. lateral.	10	54.	3,001	49.24	21.00	70.24	2	1.41	71.64	1.934	5,804	2.345	7,237
46.	Total of Above											4,120,934		5,403,998
47.	Allowance due to large volume purchases													417,454
48.	Net Cost of Pipe Delivered(b)											4,120,934		4,986,544

Notes: (a) Data in columns 1, 2, 3, 4, 6, 8a, 12 and 13 are from Exhibit 70 and its supporting working papers.
(b) Total cost of pipe delivered (columns 11 and 13) excludes Colorado and New Mexico sales taxes and "undistributed construction costs".

Exhibit No. 231

Statement No. 2
Sheet 2 of 2

Colorado Interstate Gas Company

B. COMPARISON OF REPRODUCTION COSTS OF STYLE 38 DRESSER COUPLINGS SHOWN
IN RESPONDENT'S EXHIBIT 70, WITH COSTS BASED ON USE OF DOUBLE RANDOM
LENGTH PIPE.

Summary of Dresser Coupling Cost Per Exhibit 70								
Description (1)	Outside Diameter of Pipe (Inches) (2)	Length of Line (Feet) (3)	Average Joint (Single Random) (Feet) (4)	Number of Style 38 Dresser Couplings (5)	Middle Ring (Inches) (6)	Unit Cost of Couplings Delivered (7)	Total Delivered Cost of Couplings Using Single Random Pipe (8)	Total Delivered Cost of Couplings Using Double Random Pipe (9)
Main line from Clayton Station to Colorado-New Mexico state line	22	257,412	18.9	13,618	3/8	12.89	148,300	74,150
Main line from Colorado-New Mexico state line to Defiance station	22	286,009	18.9	15,115	3/8	12.89	164,602	82,301
	22	237,894	18.9	12,552	1 1/32	12.22	123,281	61,141
Main line from Devine Station to Denver Meter Station	20	350,735	18.9	18,519	1 1/32	8.56	158,523	79,261
	20	207,594	18.9	10,873	5/16	8.28	87,504	43,772
Colorado Fuel & Iron Corporation-rueblo lateral	16	61,926	20.0	3,072	5/16	5.93	21,296	10,645
North lateral	10 3/4	39,092	19.2	1,856	5/16	4.80	8,909	4,454
Total Cost of Couplings Delivered(a)							717,448	356,724

(a) Total cost of Style 38 Dresser couplings (columns 8 and 9) excludes Colorado and New Mexico sales
taxes and "undistributed construction costs".

Federal Power Commission
Bureau of Engineering
Division of Gas Engineering

Dockets G-118, G-121 & G-124

1577

WITNESS:

DATE:

Canadian River Gas Company
Colorado Interstate Gas Company

Exhibit No. 231A

ADDITIONAL ADJUSTMENT OF PIPE COSTS SHOWN IN EXHIBIT 231
RESULTING FROM USE OF GRADE "B" SEAMLESS AND ELECTRIC WELD PIPE
IN MAIN TRANSMISSION LINE FROM BIVINS STATION TO DENVER

Line Number	Outside Diameter Of Pipe (Inches)	Quantity (Feet)	Using Lapweld Pipe				Using Grade "B" Seamless and Electric Weld Pipe				Difference Between Columns 6 and 10 (Dollars)
			Weight Per Foot (Pounds)	Working Pressure (Lbs. Per Sq. In.)	Total Tonnage Of Pipe	Total Cost Of Pipe Delivered (Dollars)	Weight Per Foot (Pounds)	Working Pressure (Lbs. Per Sq. In.)	Total Tonnage Of Pipe	Total Cost Of Pipe Delivered (Dollars)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
<u>Canadian River Gas Company</u>											
1	22	272,536	86.60	426	11,801	754,107	72.38	426	9,863	630,246	123,861
2	22	171,734	79.50	391	6,826	436,204	72.38	426	6,215	397,138	39,066
3	22	12,263	79.50	391	487	31,148	72.38	426	444	28,372	2,776
4	Total	456,533			19,114	1,221,459			16,522	1,055,756	165,703
<u>Colorado Interstate Gas Company</u>											
5	22	543,421	86.60	426	23,530	1,566,139	72.38	426	19,666	1,308,969	257,170
6	22	237,894	79.50	391	9,456	629,468	72.38	426	8,609	573,015	56,453
7	20	350,739	72.16	430	12,655	842,475	59.23	421	10,387	691,359	151,116
8	20	202,554	65.70	391	6,654	442,986	59.23	421	5,999	399,293	43,693
9	Total	1,334,608			52,295	3,481,068			44,661	2,972,636	508,432
<u>Both Companies Combined</u>											
10	Total of costs shown on lines 4 and 9					4,702,527				4,028,392	674,135

NOTES:

- Columns 1, 2 and 3 are from Exhibit 231 (and are taken from Respondents' Exhibits 68 and 70).
Column 4 is from National Tube Company General Catalogue, 1938 edition, page 129. (Same data are given in Youngstown Sheet and Tube Company Booklet No. 51, 1937, page 55.)
Column 5 is product of columns 2 and 3.
Column 6 is from Exhibit 231.
Columns 7 and 8 are from same source as column 4. Column 7 is weight per foot of regularly manufactured Grade "B" Seamless and Electric Weld pipe with working pressure equal to that of lapweld pipe installed in Denver Main Line, or in excess of 400 pounds per square inch.
Column 9 is product of columns 2 and 7.
Column 10 is product of column 9 and average cost of pipe delivered as shown in Exhibit 231. (Delivered price of pipe in Exhibit 231 is as follows: To Canadian River Gas Company, 22" pipe, \$63.90 per ton; to Colorado Interstate Gas Company, 20" and 22" pipe, \$66.56 per ton.)
Total cost of pipe delivered, shown in columns 6 and 10, excludes state sales taxes and "undistributed construction costs".

Weighted Average Price of Steel Pipe for Gas Lines
Purchased by Denver Pipe Line Company between December 1938 and October 1940

DOCKET G-124
Exh. 231-B

7 31

Line	Purchase Co.	Vendor	Date of Purchase	Quantity	Weight	Price	Total Weight	Total Price	Average Price
1	Rocky Mountain Eastern Pipeline Co.	A.O. Smith Corporation	12-2-38	24	71246	417965	1488917	4734	70033.52
2		National Tube Co.	1-26-40	24	71246	434800	1548885	4471	69250.82
3	United Gas Pipe Line Co.	National Tube Co.	3-18-39	22	5213	5050	13314	4320	5725.62
4		National Tube Co.	3-18-39	22	7039	650	2552	4320	12113
5	Colorado River Gas Co.	National Tube Co.	3-17-40	22	662	430	18537	585	16351
6	Colorado Interstate Gas Co.	National Tube Co.	2-2-39	22	8-2	665	11492	571	75394
7		National Tube Co.	12-2-38	20	724	312	1125	652	73352
8	United Gas Pipe Line Co.	National Tube Co.	3-18-39	20	6352	34500	27322	4320	12244
9		National Tube Co.	3-18-39	18	4733	64400	525358	4320	15443
10		National Tube Co.	3-18-39	16	4215	37000	17435	4320	3073255
11	Northern Natural Gas Co.	Republic Steel Corporation	8-12-39	16	4205	20000	271273	421	11495.73
12		National Tube Co.	8-12-39	16	4205	346240	771533	4240	32900.52
13		Youngstown Sheet & Tube Co.	3-18-39	16	4205	187440	394233	421	16642047
14	Colorado Interstate Gas Co.	National Tube Co.	8-24-40	16	5235	422	1105	4335	72133
15			12-2-38	16	5235	312	5339	4135	35632
16	El Paso Natural Gas Co.	A.O. Smith Corporation	7-23-40	16	4205	23804	133106	4320	38334.22
17		National Tube Co.	8-18-39	16	4205	32410	200544	434	31350638
18	United Gas Pipe Line Co.	National Tube Co.	3-18-39	14	5432	4200	18255	4320	7742.5
19	Colorado River Gas Co.	National Tube Co.	3-17-40	14	4568	221	5057	5391	28043
20	United Gas Pipe Line Co.	National Tube Co.	3-18-39	12	4356	5453	8543	4320	347.25
21	El Paso Natural Gas Co.	Phoenix Sheet & Tube Co.	8-31-40	12	3837	16208	273281	421	11753.45
22			7-17-39	10	5235	3-422	5015708	4320	21855407
23	United Gas Pipe Line Co.	National Tube Co.	3-18-39	10	4248	8752	17710	4320	761530
24	Total Pipe Purchased in 1938, 1939 & 1940					3,231,747	80,176,45	4435	354766207
25	Weighted Average Price per Ton								
26	El Paso Natural Gas Co.	Youngstown Sheet & Tube Co.	3-6-39	8	18259	352443	3518878	4731	16853367
27	Colorado Natural Gas Co.	Republic Steel Corporation	8-12-39	8	18259	404277	36208-7	5022	18464.32
28	Colorado River Gas Co.	Continental Supply Co.	1-2-39	8	2134	4012	449.5	5323	2442.11
29	Colorado Interstate Gas Co.	National Tube Co.	3-24-40	8	3334	417	10143	5327	53539
30			3-17-40	8	1827	2645	31273	5638	521434
31	Colorado River Gas Co.		3-3-40	8	1827	6019	37074	4914	278449
32	Colorado Natural Gas Co.	Republic Steel Corporation	8-12-39	8	11652	33034	343523	5022	1747.25
33			8-12-39	8	8439	24573	1003811	5022	521408
34	Colorado River Gas Co.	National Tube Co.	3-5-40	8	1073	5329	32528	4923	162282
35		Continental Supply Co.	1-2-39	8	1073	5507	29708	5323	144422
36			11-12-39	8	1073	434	2341	6464	15183
37			11-12-39	8	1073	448	3038	4474	58773
38	Colorado Interstate Gas Co.	National Tube Co.	3-17-40	8	1073	2502	13500	5074	76539
39	Colorado River Gas Co.	National Tube Co.	3-3-40	8	85	121	4451	491	21975
40	El Paso Natural Gas Co.	Phoenix Sheet & Tube Co.	8-31-40	8	386	7632	378133	5025	192261
41	El Paso Natural Gas Co.	Phoenix Sheet & Tube Co.	4-18-39	8	1145	633600	369072	4845	18023167
42			3-18-40	8	386	7632	78144	5050	3346272
43	Total Pipe Purchased in 1938, 1939 & 1940					1,720,435	128,146	4320	6388145

Note: Data taken from Denver Pipe Line Company records.

[Testimony of WITNESS HILL.]

Q. Mr. Hill, I will ask you whether or not you have had occasion to examine Exhibit Nos. 68, 70 and 71 that have heretofore been presented in these proceedings?

A. Yes, sir.

Q. Have you also had occasion to make a study of the pipe prices and Dresser couplings?

A. Yes, sir.

Q. Have you made a comparison of pipe prices and Dresser couplings as you found them in—strike “In”—with those as presented in those exhibits, Exhibits Nos. 68, 70 and 71?

A. Yes.

Q. Is this the exhibit and written statement that you prepared in connection with that study?

A. Yes, sir.

The Trial Examiner: It will be marked for identification as Exhibit No. 231.

(Exhibit 231, Witness Hill, marked for identification.)

By Mr. Lange:

Q. Will you please read that written statement, Mr. Hill?

A. “Rebuttal Testimony re Exhibits 68, 70 and 71.

“Respondents’ exhibits 68 and 70 present estimates of the reproduction cost new of the Denver pipe line properties of Canadian River Gas Company and Colorado Interstate Gas Company as of December 31, 1938.

“Pipe Costs—

“Testimony concerning Account 353, Mains, and an examination of supporting working papers show that the prices of line pipe used in these exhibits are based on published prices and discounts as of December 31, 1938, with an additional deduction of ten per cent of the net discounted price as an allowance obtainable on large volume purchases.

“The records of Canadian River Gas Company and Colorado Interstate Gas Company (which are substantially in agreement with pipe quantities given in Exhibits 68 and 70) indicate that approximately 81,000 tons of line pipe were used in the construction of the Denver pipe line from Bivins Station to Denver including branch lines to intervening points.

"During 1938, 1939, and 1940; major pipe line projects were constructed by a number of companies. Some of these companies have submitted to the Commission, upon request, complete data concerning the amount of pipe purchased and prices paid therefor. Copies of purchase orders and invoices for steel line pipe purchased for major construction during the period from December 1938 to September 1940 were furnished by Panhandle Eastern Pipe Line Company, Northern Natural Gas Company, United Gas Pipe Line Company, and El Paso Natural Gas Company; and a sworn statement of transmission line costs was filed by Louisiana Nevada Transit Company. In addition, a statement of pipe purchased by Canadian River Gas Company and Colorado Interstate Gas Company during this same period was prepared from their records.

"The information furnished by the seven companies covered the purchase of over 900 miles of gas line pipe, ranging in diameter from $3\frac{1}{2}$ inches to 24 inches, with a total weight of over 90,000 tons, at a cost in excess of \$4,000,000. Practically all of this was double random length pipe, averaging 38 to 43 feet per joint. A considerable part of this pipe was 'Grade B seamless,' for which published prices are higher than for the 'Grade A lapweld' pipe used in the construction of practically all of the Denver line.

"The information submitted by the seven companies has been analyzed, the pipe purchases have been grouped into two classifications:

"1. Pipe with a diameter of $10\frac{3}{4}$ " O.D. to 24" O.D.

"2. Pipe with a diameter of $8\frac{5}{8}$ " O.D. and under.

"This classification is based on the fact that United Gas Pipe Line Company purchased approximately 19,000 tons of pipe, in sizes varying from $10\frac{3}{4}$ " O.D. to 22" O.D., at a single price of \$43 per ton f.o.b. mill, at the time it built its Monroe-Jackson line; and that Louisiana Nevada Transit Company purchased all of the pipe used in the construction of its line from the Cotton Valley field in Louisiana to Okay, Arkansas (amounting to approximately 4,000 tons of $4\frac{1}{2}$ ", $6\frac{5}{8}$ " and $8\frac{5}{8}$ " pipe) at a price of \$50 per ton f.o.b. mill.

"The weighted average price of approximately 80,000 tons of line pipe of the first classification ($10\frac{3}{4}$ " O.D. to 24"

O.D.) purchased by the seven companies is \$44.25 per ton f.o.b. mill. The weighted average price of approximately 13,000 tons of line pipe of the second classification (8 $\frac{5}{8}$ " O.D. and under) purchased by the same companies is \$49.24 per ton f.o.b. mill. The prices paid on individual purchases vary from a minimum of \$42.23 per ton f.o.b. mill paid by Northern Natural Gas Company, in the purchase of 316,500 feet of 16" O.D. pipe, to a maximum of \$65.78 per ton f.o.b. mill paid by Colorado Interstate Gas Company, in the purchase of 265 feet of 22" O.D. pipe. The maximum price relates to a small purchase where published prices prevail, and the minimum to a large volume purchase based on negotiation. The weighted average prices reflect purchases in both small and large amounts, but are influenced primarily by the large volume purchases.

"Exhibit No. 231 compares the cost of the line pipe in Account 353, Mains, as of December 31, 1938, as shown in Exhibits 68 and 70, and the cost of line pipe based on the weighted average prices determined from actual purchase orders of the seven companies previously mentioned. For the purpose of comparison, the basic *cata* employed in the preparation of Exhibits 68 and 70, except as to the price of pipe, have been used in calculating the pipe cost shown in Exhibit No. 231. In this exhibit, state sales taxes have been omitted from the costs of pipe based on actual prices paid by the seven companies, and also from the costs taken from Exhibits 68 and 70.

"Dresser Coupling Costs

"The 22" and 20" transmission line from Bivins station to Denver, the 16" C.F.&I. Pueblo lateral, and the 10 $\frac{3}{4}$ " lateral to Arapahoe measuring station are Dresser coupled lines, which are built with single random length pipe averaging 19 feet per joint. Practically all of the pipe purchased between December 1938 and September 1940 by the seven companies whose pipe purchases were analyzed was double random lengths, averaging between 38 feet and 43 feet per joint. If the Denver line were reconstructed, double random lengths would be used in accordance with present day practice, and the number of Style 38 Dresser couplings would be but 45 to 50 per cent of the number actually installed. In this exhibit, the higher percentage

has been used, and applied to the cost of Style 38 Dresser couplings shown in Exhibits 68 and 70; this results in a reproduction cost equal to half that shown in respondents' exhibits.

"Summary of Costs

"The reproduction costs of line pipe and Style 38 Dresser couplings required for the Denver line as of December 31, 1938 (excluding state sales taxes and 'undistributed construction costs'), as shown by Exhibits 68 and 70 and Exhibit No. 231, are as follows:

"Canadian River Gas Company

Line	Description	Line Pipe	Dresser Couplings	Total
	(1)	(2)	(3)	(4)
1.	Respondent's Exhibit No. 68	\$1,535,978	\$256,200	\$1,792,178
2.	F.P.C. Exhibit 231	1,237,052	128,100	1,365,152
3.	Difference	298,926	128,100	427,026
4.	Percent difference	24.2	50.0	31.3"

Q. And for explanatory purposes you may state that the dollar figures in Line 2 are taken from Statement 1 of this Exhibit, isn't that correct?

A. Yes.

"Colorado Interstate Gas Company

Line	Description	Line Pipe	Dresser Couplings	Total
	(1)	(2)	(3)	(4)
5.	Respondent's Exhibit 70	\$4,986,544	\$717,448	\$5,703,992
6.	F.P.C. Exhibit 231	4,120,934	358,724	4,479,658
7.	Difference	865,610	358,724	1,224,334
8.	Percent difference	21.0	50.0	27.3"

Q. And the dollar figures appearing in Line 6, I take it, are taken from Statement 2 of this exhibit?

A. That is correct.

Q. Proceed reading, please.

"Both Companies Combined"

Line	Description	Line Pipe	Dresser Couplings	Total
	(1)	(2)	(3)	(4)
9.	Respondent's Exhibits			
	68 & 70	\$6,522,522	\$973,648	\$7,496,170
10.	F.P.C. Exhibit 231	5,357,986	486,824	5,844,810
11.	Difference	1,164,536	486,824	1,651,360
12.	Percent difference	21.7	50.0	28.3

Q. And the figures presented in Lines 9 and 10 are mere additions of those appearing under the two previous headings of the Canadian River Gas Company and the Colorado Interstate Gas Company on that same page?

A. That is correct.

"Exhibit 71, sponsored by respondents, presents estimates of reproduction cost new of the Denver pipe line properties of Canadian River Gas Company and Colorado Interstate Gas Company as of June 30, 1940. The unit costs used in Exhibits 68 and 70 in the preparation of reproduction cost estimates as of December 31, 1938 were also used in Exhibit 71 in the preparation of reproduction cost estimates as of June 30, 1940. Property in service on December 31, 1938 and on June 30, 1940, has been assigned the same reproduction costs in Exhibits 68, 70 and 71.

"Exhibit 71 shows that the changes in Account 353, Mains, between December 31, 1938 and June 30, 1940 were negligible. For Canadian River Gas Company the net change in the account was an increase of \$356, or 0.02 per cent; for Colorado Interstate Gas Company the net change in Account 353 was a decrease of \$6,320, or 0.08 per cent. It is evident that, for all practical purposes, differences shown in the preceding tabulation apply also to the reproduction cost of these properties, as of June 30, 1940, as shown in Exhibit 71."

(Vol. LXXVI, pp. 11249-11256.)

Q. Mr. Hill, referring to Exhibit No. 231-A that has just been identified, I will ask you whether this exhibit was prepared by you or under your direction and supervision.

A. It was, yes, sir.

Q. Will you give a brief explanation of it at this time?

A. Well, this is a substitution of seamless Grade B pipe for Grade A lapweld pipe used in Exhibits Nos. 68 and 70. It shows the footage taken from Exhibits Nos. 68 and 70 and the weights, the working pressure of lapweld pipe, and also shows the tonnage; also shows substitute weight of seamless pipe its working pressure, total tonnage and total cost of pipe delivered, and also the difference between the cost of the lapweld pipe and the seamless Grade B pipe.

Q. Does this exhibit reflect the difference in cost of lapweld pipe as computed by you?

A. Yes; that is, as compared with the seamless pipe.

Q. Is there any other matter in connection with that exhibit you desire to explain at this time?

A. I think the note at the bottom of this exhibit explains the way it was worked up and it also shows the difference between lapweld and Grade B seamless or electric weld pipe for both companies combined, Colorado Interstate Gas Company and Canadian River Gas Company.

Q. Now, referring to Exhibit No. 231, I will ask you whether or not the pipe prices that you had before you as a basis for that exhibit had reference to seamless and electric weld pipe?

A. Yes sir.

Q. As I understand it, this Exhibit 231-A relates only to the pipe in the main line.

A. That is correct.

Q. It doesn't relate to any pipe in the laterals?

A. That is correct.

Mr. Lange: I believe that is all for the present.

Cross Examination.

By Mr. Spencer:

Q. Mr. Hill, have you in your experience ever been in charge of the purchase of substantial quantities of pipe for a natural gas company?

A. I have bought a good deal of pipe. I have reviewed

quotations and purchases of pipe for large quantities of pipe.

Q. When was that, Mr. Hill?

A. Well, I bought a good deal of pipe when I was with the Sloss-Sheffield Steel & Iron Company.

Q. When was that?

A. From 1924 to 1929. I was with the Southern Natural Gas Company—

Q. Before we leave that, Mr. Hill, for what purpose was that pipe bought?

A. At that time we built about 12 miles of water lines, semi-mine properties, large-sized properties—

Q. What size of pipe was used?

A. If I remember right, offhand, it was about 14-inch pipe.

Q. What kind of pipe?

A. Steel pipe lapweld. Of course we use to buy lots of pipe for use around furnaces and byproduct plants.

Q. That covers the experience you have had in the purchase of pipe—

Mr. Lange: I think Mr. Hill was just about to add another matter when you asked him to include the other.

Mr. Spencer: I have that in mind, but there are a few questions about this particular experience that I want to ask him before he goes to the next one.

Q. That covers the experience in the purchase of pipe for about five years?

A. From 1924 to 1929, approximately five years.

Q. During that period, what was the largest single project for which you purchased pipe?

A. I think that 12 miles of water line was, the 12 or 14 miles of water line. I have forgotten exactly, but I think it was approximately that.

Q. All right, the next experience you had in the purchase of pipe was what?

A. In 1930 I reviewed a number of quotations for pipe purchased by the Southern Natural Gas Company, however, offhand I don't recall how much it was. It was a line from Benton Junction, Mississippi to Pensacola, Florida; and a line from Atlanta, Georgia to Milledgeville, Georgia.

Most of that pipe—I didn't actually purchase the pipe. I was just reviewing the quotations for the pipe. The purchasing agent purchased all of that pipe. Most of that pipe was 18 and 16 and 14 inch pipe and I think there was some 12-inch pipe from Mobile, into Pensacola. They purchased a line from the Southern Natural Gas Company main pipe line for Columbus, Georgia. It was 10 and 12-inch pipe.

I think it was 10, 12 and 8 on the Macon line.

Q. What period does that cover?

A. That was during 1930.

Q. 1930?

A. Yes, sir.

Q. You did not conduct the actual negotiations for the purchase of pipe for Southern Natural Gas Company?

A. I did not. I only made the tabulation on the pipe.

Q. The quotations were handed to you by the purchasing department?

A. Yes, we wrote the specifications and handed it to him and it was the uniform manner in which he got quotations.

Q. Do you know who actually did purchase the pipe at that time for Southern Natural Gas Company?

A. Bob Strickland was then purchasing agent. I am not sure whether he actually negotiated the pipe or Ingram actually negotiated the purchase of it. I am not sure about it as I don't know.

Q. Do you know what Ford, Bacon & Davis had to do with the purchase of that particular pipe?

A. Well, I don't know offhand. I know at that time Ford, Bacon & Davis had an operating contract over there and Mr. E. G. Hill was on the job at that time, but I don't know the particulars because I wasn't in on the negotiating of the pipe, that is, the actual purchasing of the pipe, and I don't recall the exact circumstances surrounding it, although Ford, Bacon & Davis did not do the construction work at that time.

Q. Did you actually purchase this pipe for the 12-mile water line that you testified about?

A. I was in the negotiations with the Chief Engineer, yes, sir.

Q. Who was actually responsible for the purchase of that pipe?

A. The purchasing agent, I imagine, if you want to know who actually purchased the pipe. The negotiations were carried on in our office and turned over to him. He always purchased everything under specifications from us.

Q. What other experience have you had in the purchase of pipe?

A. Well, I have purchased quantities of pipe for compressor stations for Southern. I have actually purchased the pipe myself—

Mr. Lange: You mean the Southern Natural Gas Company?

The Witness: Southern Natural Gas Company.

By Mr. Spencer:

Q. Small quantities of pipe?

A. Small quantities of pipe and fabricated pipe. It may have been a carload or something like that, including fabricated pipe.

Q. Now, referring to your written statement in Exhibit No. 231, you have made an examination in respect to Exhibits Nos. 68 and 70 presented by Mr. Rhodes?

A. Yes, sir.

Q. And from your statement here I conclude that Mr. Rhodes' prices of line pipe were based upon published prices and discounts as of December 31, 1938?

A. Yes, sir.

Q. In this Exhibit No. 231 you have a different approach to the matter of prices, is that correct?

Mr. Lange: You mean Exhibit 231-A?

Mr. Spencer: Exhibit No. 231.

The Witness: I don't understand that, Mr. Spencer.

Mr. Spencer: I will restate the question.

Q. In your Exhibit No. 231 you have not based prices on published prices and discounts?

A. No, sir, I have not. It has been based upon actual purchases of pipe bought over the period 1938 to 1940 by major pipe line companies.

Q. Now, where did you get your data and information on these purchases of pipe by what you term major pipe line companies during that period?

A. We received it from the pipe line companies themselves.

Q. I mean, where did you personally get it?

A. Well, it was sent to me from Washington.

Q. By whom?

Mr. Lange: The Federal Power Commission?

The Witness: To the Federal Power Commission, yes.

By Mr. Spencer:

Q. It was sent to you by the Federal Power Commission at Washington?

A. Yes.

Q. When did you receive it?

A. Well, I can give you pretty close to it.

Q. Approximately, Mr. Hill, is all that is necessary.

A. Well, I would say it was some time in either October or November. I am not certain.

Q. Of 1940?

A. Yes, 1940. I think it was sometime in October.

Q. Was it sent personally to you?

A. No, sir, it was not.

Q. It was sent to the engineering department of the regional office in Denver?

A. All of the mail goes through the regional director. It is a matter of form that is followed.

Q. Now, what instructions did you receive from the Washington office with respect to this particular data and information that they transmitted?

A. I didn't receive any information.

Q. Instructions?

A. No sir.

Q. None?

A. No, sir. My instructions are received out of this regional office, not out of Washington.

Q. Then for the purposes of this exhibit you have accepted information and data on pipe purchases which has been forwarded to you from the Washington office?

A. Yes.

Q. Now, in what form is that information and data set up with respect to these purchases that you use?

A. Well, they actually had a copy of the purchase orders and sample copies of invoices from the pipe line companies attached to the purchase orders. There might have been out of one case of the whole thing—there are also specifications of the pipe attached to the purchase orders and I think in one case they did not send sample copies of the invoice from the pipe company. The rest of them were accompanied by sample invoices from the pipe company.

Q. Do you know how this information and data regarding pipe purchases came into the possession of the Federal Power Commission in Washington?

A. No, sir, I do not.

Q. Do you know that the information and data forwarded to you regarding pipe purchases is all of the information and data that the Washington office of the Federal Power Commission in Washington has on this subject?

A. I don't know.

Q. Do you know why the Federal Power Commission office in Washington selected these particular pipe purchases to transmit to you for the purposes of this Exhibit No. 231?

A. Well I understand it is pretty generally—

Q. If you know, Mr. Hill.

A. No, I don't know.

Q. Now, aside from miscellaneous purchases that were made by the Canadian River Gas Company and Colorado Interstate Gas Company during this period, you have only five companies involved which you have used as a basis for your Exhibit No. 231, is that right?

A. Yes, sir, that is correct, with the exception of the Colorado Interstate Gas Company and the Canadian River Gas Company.

Q. And those are, as you state in your written statement, Panhandle Eastern Pipeline Company, Northern Natural Gas Company, United Gas Pipe Line Company and the El Paso Natural Gas Company?

A. And the Louisiana-Nevada Transit Company.

Q. That's right, pardon me. That makes the five of them.

A. Yes, sir.

Q. Your total purchases during this period which you have used expressed in tonnage amounts to about how much?

A. Well, there is about 90,000 tons, approximately.

Q. And the amount of pipe in tonnage required to reproduce the transmission lines of Canadian River Gas Company, and Colorado Interstate Gas Company from Bivins station to Denver, together with the laterals, amounts to about how much, expressed in tonnage?

A. If I remember right, it was about 81,000 tons.

Q. Now, the purchases by the Canadian River Gas Company and Colorado Interstate Gas Company during this period amount to how much in tonnage?

A. I will have to figure it for you, Mr. Spencer. I don't have it right off.

Q. Just before you start figuring, Mr. Hill, maybe I can help you.

A. It was a very small amount of pipe.

(Vol. LXXX, pp. 11754-11764.)

Q. Mr. Hill, you take the pipe purchases of these companies during this period and you arrive at a weighted average price in your Exhibit No. 231. Tell me just briefly how you arrive at your weighted average price.

A. Well, we took the pipe purchases that we analyzed and put the actual purchase price in that this pipe was bought for, all f.o.b. mill prices and then we added the total tonnage, and divided into the total price of pipe and came out with a weighted average price per ton.

Q. The weighting, then, is all on tonnage?

A. Yes, this is all on a tonnage basis. This pipe was averaged in sizes from 10- $\frac{3}{4}$ inches to 24 inches, inclusive; and from 8- $\frac{5}{8}$ down. It was averaged in arriving at an average price per ton.

Q. Now, will you turn to your working papers relating to pipe purchases of the United Gas Pipe Line Company?

Now, as I understand it, the invoices which you have covering these purchases state the delivered price per foot, f.o.b. destination, is that correct?

A. The pipe invoice itself?

Q. Yes.

A. Yes, sir, all pipe is billed that way, for the purpose of being able to check this pipe in the field, although the basic price of pipe is figured on the ton basis.

Q. Yes. Now, you took those prices f.o.b. destination and adjusted them to f.o.b. mill, did you not?

A. Not on the United Gas Company I did not, because they stated that all the pipe that they bought was at \$43 a ton, f.o.b. the mill, and the \$43 is what I used on the United Gas Pipe Line Company.

Q. What mill did it come from?

A. Well, most of it came from National Tube. In fact, I believe all of it was from National Tube.

Q. The location of it, I mean.

A. Well, the usual thing—most of this pipe was shipped out of Lorain.

Q. What state?

A. I believe it is Lorain, Indiana.

Q. Ohio?

A. I mean Ohio. Practically all this pipe was shipped out of Lorain.

Q. So that in that instance you accepted the pipe at the mill as given to you by the company, meeting the United Gas?

A. Yes, that is the way the purchase orders read.

Q. Take one of these cases where you didn't have that information on the mill price. How about Panhandle Eastern Pipeline Company?

A. The Panhandle Eastern Pipeline Company specifically states that their price is based at \$48 per ton, f.o.b. mill.

Q. That is the purchase order?

A. Yes, sir, this is the purchase order for the pipe.

Q. What does the invoice say?

A. The invoice on the Panhandle Eastern is billed like all other pipe is billed, on a foot basis, all based back on \$48 per ton f.o.b. the mill.

Q. Well, just tell me what the invoice says as to price, please.

A. This invoice states: "\$188.13, 100 feet net."

Q. F.o.b. where?

A. This is the delivered price in Illinois. It was shipped from Lorain, Ohio.

Q. Well, in other words—

A. Mt. Auburn, Illinois.

Q. In other words, that invoice is based upon an f.o.b. price at destination and also on a footage basis rather than on a tonnage basis, is that correct?

A. That's right. Also on a footage basis. It is also subject to 2 per cent cash discount.

Q. All right, now, did you take that invoice and compute backwards to see what price you came out with at the mill per ton?

A. Well, I checked—I don't seem to have the work sheet on that, but where the ton price was stated I made a check back to the actual pipe invoice to see that it corresponded to the ton commitment and—

Q. Now, the invoice you are talking about I assume is the National Tube Company invoice, June 26, 1940, covering 434,800 feet of pipe weighing 15,488.88 tons, is that correct?

A. Just a minute, Mr. Spencer, I'll have to check it.

Q. The National Tube invoice—I mean the purchase order to National Tube Company—

Q. I don't want the purchase order. I want the invoice, Mr. Hill.

A. Well, the invoice doesn't state the total footage, Mr. Spencer. If you want the total footage I will have to take that from the purchase order. These invoices are billed for so many pieces of 24-inch pipe. They do state it on the purchase order, that is, the quantity and feet ordered. These same purchase orders do not cover the entire purchase and they only show the footage shipped in this case.

Q. You are talking about the invoices rather than the purchase orders?

A. This is the invoice from the National Tube Company, yes.

Q. What price per ton did you use f.o.b. the mill for that particular purchase?

A. I used \$45.50.

Q. \$45.50?

A. \$45.50—I will have to check that, Mr. Spencer.

Q. Also check to see whether that was before or after the deductions of the 2 per cent discount.

A. That was before it. I will tell you, Mr. Spenceer, there was an additional 12 cents added onto the cost of that pipe for priming. I included that 12 cents, which made \$45.62 less the 2 per cent discount which made the net \$44.71.

Q. What I am getting at, Mr. Hill, is this: Did you make the computations to arrive at that price per ton or did you just accept some figures that were furnished to you by the Panhandle Eastern?

A. All of those prices—the purchase orders on this pipe have stated on the purchase invoice price \$45.50 per ton f.o.b. mill. I checked this \$45.50 back against the actual invoice to see that that was approximate. Of course, it never ran out on the exact \$45.50 but it would check close enough so that you would know the basic price this pipe was bought at was \$45.50 f.o.b. mill; that is, per ton.

Q. You testified a moment ago with reference to the United Gas purchase of pipe. You accepted the United's statements as to the price per ton, did you not? What I am getting at, Mr. Hill, is this: Didn't you treat the United Gas Pipe Line Company's purchase in the same manner you describe here?

A. I used the \$43 per ton.

Q. That is the figure you got off of the purchase order, is it not?

A. That figure is shown on a number of purchase orders and it was relating back to the original purchase order.

Q. Did you also in that case check the invoices against the purchase orders to see that the price the company received was \$43 per ton f.o.b. mill?

A. Yes, I did on the 18-inch 1/4-inch wall which was the majority of the pipe they purchased.

Q. You have done all this checking yourself, Mr. Hill?

A. Yes, sir, these are all my figures. Of course, there are some corrections on this United Gas Pipe Line. If I remember correctly there was about 8,000 feet of heavy wall pipe that might have been computed at a different price but there was also a correction invoice checking it back.

Q. This Exhibit No. 231 has been prepared entirely by you, Mr. Hill?

A. Yes, sir. I made all of the calculations on this pipe and took all of the footages and what-not from exhibits 68 and 70.

Q. Statements 1 and 2 were also prepared by you?

A. Yes, sir.

Q. Do you recall how many steel mills you have involved for purchases made by these five companies?

A. The National Tube Company, the Youngstown—

Q. I am talking about plants.

A. I don't understand the question, Mr. Spencer.

Q. Well, you have had to make a calculation here to determine a f.o.b. mill price and I want to know how many different steel mills you used for the purpose of determining f.o.b. mill prices.

A. Well, I think I have that information here. I used Lorain, Ohio; Youngstown, Ohio, and McKeesport, Pennsylvania.

Q. Lorain, Ohio, and McKeesport, Pennsylvania?

A. Yes, sir.

Q. Just these two?

A. And Youngstown, Ohio.

Q. Youngstown, Ohio?

A. Yes.

Q. You did not use Milwaukee, Wisconsin? Wasn't there a lot of pipe received from A. O. Smith Corporation?

A. Well, we did purchase pipe from A. O. Smith in Milwaukee.

Q. Now, in obtaining your average freight rate I guess you show that on your Statement No. 2, Sheet 1, Column 5—no, wait a minute, it is Column 6. Can you find that?

A. Yes.

Q. Tell me how you figured that average freight rate.

A. I checked this freight rate and the freight rate used in Exhibits 68 and 70. The freight rate used in those exhibits was pretty close to what I had checked so I used the freight rate in Exhibits 68 and 70.

Q. Did you tie in your purchases of pipe from these various mills ~~up~~ the quantities shown in Exhibits 68 and 70?

A. Did I tie in the purchases of pipe?

Q. That's right.

A. I don't understand what you mean by "tie in," Mr. Spencer.

Q. Exhibit No. 68 and Exhibit No. 70 allocate the total quantity of pipe needed for certain mills, do they not?

A. If I am right on the thing, the freight on the pipe bought from National Tube Company on the large quantity purchases is usually equalized from Lorain, whether shipped from McKeesport or Lorain, and I think that is what is used in Exhibits Nos. 68 and 70.

Q. You divided our pipe into two classes, 10-3/4 and 24-inch, and the second type into four and one-half inch to 8-5/8 inches

A. That is correct.

Q. You state in your written statement that the purchases cover the period from December 1938 to September 1940, is that correct?

A. Yes, sir.

Q. How much of the first class of pipe purchases used were made in 1938?

A. There was very little of it purchased in 1938.

Q. Approximately 28,000 tons?

A. Well, it was a very small amount that was purchased in 1938.

Q. I should have said approximately 28 tons.

A. It is something like that. That is approximately right.

Q. Approximately 28 tons?

A. That is approximately right. I haven't added the whole thing up yet, but there was a very small amount purchased in 1938.

Q. You find no purchases of your second class of pipe during 1938, do you?

A. No, sir, I do not.

Q. Who made the purchases of the 28 tons of pipe used in 1938?

A. The 1938 purchases are shown here for the Colorado Interstate Gas Company.

Q. The Colorado Interstate Gas Company?

A. Yes, sir.

Q. And the Canadian River Gas Company?

A. Just a minute, Mr. Spencer, I will have to check this.

Q. I beg your pardon.

A. The only purchase I showed in 1938 was the Colorado Interstate Gas Company.

Q. In other words, none of your five principal companies purchased any pipe you used during the year 1938?

A. No, sir, there was not. There was a very small amount of pipe purchased in 1938.

Q. All right. I want to know approximately how many tons of both classes of pipe were purchased during the year 1939.

A. Well, the Panhandle Eastern Pipeline Company, they purchased—

Mr. Spencer: Off the record.

6. (Discussion outside the record.)

By Mr. Spencer:

Q. You do not have that figure readily available in your working papers, Mr. Hill?

A. The amount purchased in 1939?

Q. Yes.

A. I will have to read it.

Q. To save time, Mr. Hill, suppose I give you my figures which have been computed in answer to this question and you can accept them or reject them subject to check if agreeable with counsel.

Mr. Lange: Very well.

By Mr. Spencer:

Q. Now, Mr. Hill, my computation shows with respect to your first classification of pipe 10-3/4-inch to 24-inch in 1938 approximately 28 tons were purchased in 1939, 60,556 tons—

A. That is the same classification now?

Q. Yes. And in 1940, 19,594 tons, making a total of 80,178 tons.

As to the second classification which is 4-1/2-inch to 8-5/8 inches, it is indicated as follows: 1938, no purchases; 1939, 11,442 tons; 1940, 1369 tons; total 12,811 tons.

A. Those were taken off my sheet, I imagine they are approximately right, Mr. Spencer, but I wouldn't say until I had time to check them. I would be glad to do that.

Q. Will you accept them as being correct, subject to check?

A. Yes, sir, I will.

Mr. Lange: Subject to Mr. Hill's check?

Mr. Spencer: Yes, or Mr. O'Connor's check, for that matter.

Let it be understood, Mr. Examiner, if this is not a correct computation counsel can put in a corrected one at any time, whether Mr. Hill is here or not.

Mr. Lange: That is all right.

The Trial Examiner: Very well, Mr. Spencer.

Mr. Spencer: I assume Mr. Hill will not take his working papers with him in any event?

Mr. Lange: No, they will be available here.

Mr. Spencer, do you have a copy of that computation so that Mr. Hill may have the information for the purpose of checking it?

Mr. Spencer: I will have a copy of it made.

Q. If these figures are correct, Mr. Hill, you have substantially no purchases in 1938, is that correct?

A. That is correct, a very small amount.

Q. The bulk of your purchases were made in 1939, were they not?

A. Yes, sir, and in the first part of 1940. The majority of the pipe was purchased in 1938 and some of the pipe was delivered in 1940.

Q. That might be so—

A. I mean purchased in 1939.

Q. You are not prepared to say, then, Mr. Hill, are you, that the average weighted pressure of pipe which you used in your Exhibit No. 231 is indicative of pipe prices existing as of December 31, 1938?

A. Well, most of the pipe was purchased in 1939 and 1940. I think the average price would be more during that period of time, 1939 and 1940.

Q. The prices of the pipe which you do use—the few purchases you did make in December 1938—were higher than those used in Exhibits 68 and 70, is that correct?

A. Yes, sir, but they were all purchased in small quantities. They were less than carload.

Q. Do you know how many miles of pipe line were constructed by natural gas companies during the period December 1938 to September 1940?

A. No, I don't.

Q. Would you care to express an opinion on the amount of mileage that might have been constructed during that period?

A. I wouldn't know offhand. There were so many small lines and lateral lines built in that time and small quantities of pipe purchased, I think you would be making a guess on that if you did give a figure.

Q. How many miles of pipe is represented in the purchases you have made?

A. Approximately 900.

Q. You have small pipe in there, too?

A. Yes, sir, I have small pipe in there, too, but it was all bought on the same purchase order. I haven't made any attempt to determine the exact number of miles of pipe installed in the last two or three years.

Q. I take it that it follows, Mr. Hill, you do not know how many pipe line projects or how many major purchases of pipe during this period have been eliminated by you in arriving at your conclusions, is that right?

A. All I had to go on was the five companies I have used. It seems reasonable to me to believe that if they purchased pipe during this period at that price that other companies could purchase it at somewhat the same prices.

Q. You do know of pipe line projects that were constructed during this period which you have not included, do you not?

A. Not in any long pipe lines offhand with the exception of the line that was built to Milwaukee. That is about the only line I know of of any size or consequence built during this period. There was one line that was built from Panama City or Pass Christian during this period but I didn't have anything on it.

Q. You have no data on that?

A. No. It was just a small pipe, an 8-inch pipe, I believe, and as I understand it, I don't think the line has been completed yet.

[Testimony of WITNESS HILL (continued.)]

Q. I believe you testified before that you did not know whether the Federal Power Commission office in Washington furnished you with all the information and data they have on this subject?

A. No, sir, I don't have access to those files in Washington.

Q. Now, I will read you a list of companies here that are engaged in the natural gas business and I will ask you if you consider them major companies with respect to that business: Oklahoma Natural Gas Company, Lone Star Gas Company, Hope Natural Gas Company, East Ohio Gas Company, Arkansas Natural Gas Company, Cities Service Gas Company, Columbia Gas & Electric Company, Memphis Natural Gas Company and Southern Natural Gas Company.

Do you consider those companies major companies in the business?

A. Yes, sir. Since you mentioned those names, I can tell you more pipe that has been put in if you would like to have it. I couldn't recall it at the time.

Q. Well, I think it will suffice for my purpose to ask you just one more question.

You have not taken into consideration any purchases of pipe for any of those companies during the periods you have used?

A. No, sir, I had nothing on the purchases of the pipe by those companies.

Q. You do know they bought pipe?

A. Yes, sir, I know they bought pipe.

Q. And in substantial quantities?

A. I think the Memphis Natural Gas Company bought a good deal. They looped some lines. I know Southern Natural Gas Company looped some line in the last year, however, I don't know how much pipe was used but it was a good deal. I know they are looping some line over there now.

Mr. Spencer: Off the record.

(Discussion outside the record.)

By Mr. Spencer:

Q. In connection with this study, Mr. Hill, you have not made any inquiry of pipe manufacturers for pipe prices, I take it?

A. No, sir, I have not.

Q. Do you have any knowledge, Mr. Hill, of current quotations of pipe manufacturers for line pipe such as you have studied here?

A. Nothing more than what I have used in this exhibit.

Q. What would you say as to the general level of the prices on large diameter pipe during the year 1939?

Mr. Lange: What do you mean by "large level," Mr. Spencer? You might indicate what sizes you have in mind.

Mr. Spencer: Let's use his first classification.

The Witness: Will you read the question, please?

(The question referred to was read by the reporter as set forth above.)

The Witness: I would say it would be what pipe had actually been purchased for during the year 1935—I mean 1939.

By Mr. Spencer:

Q. Perhaps my question was not very clear. I mean the level of prices for such pipe during the year 1939 in relation to prices for such pipe during previous years.

A. I don't have any large quantities purchased in 1938 so I don't actually know what the large quantity purchases were in 1938. I have just a few l.c.l. prices for 1938 in comparison—

Q. Pardon me.

A. In comparison with 1939 and 1940 when the prices were practically the same. There wasn't a great deal of difference in them.

Q. What do you say about 1937?

A. I imagine pipe prices were lower in 1937 than they are in the present day market.

Q. What do you say about the relationship with reference to present prices?

A. With 1937?

Q. No, I am comparing 1939 prices, the 1939 level of prices with the present level of prices.

A. I would say—I really don't know, Mr. Spencer. I don't know what the first quarter prices of 1941 are as I have made no analysis of it.

Q. I don't want you to answer the question unless you do have some knowledge of it, Mr. Hill.

Taking all of the pipe that you have used here in your computations, do you know which of the pipe was rolled on order and which was delivered on what you might term "on mill run"?

A. I imagine all of the larger purchases were rolled on order. That is the way pipe is usually manufactured. The pipe companies very seldom carry a large stock of pipe. I imagine all of the larger orders of pipe were rolled on order.

Q. That is your opinion, is it?

A. Well, I think it is reasonable to believe there is no pipe company in the country that would carry as much pipe as some of these orders called for. I don't think they would do that.

Q. Well, look at your working papers on the El Paso Natural Gas Company. Do you find purchases made there from the Phelps-Dodge Mercantile Company?

A. Yes, sir, I am sure they purchased pipe through them.

Q. Well, does it seem reasonable to believe that pipe was rolled on order?

A. I have no reason to believe it wasn't, Mr. Spencer. It was shipped directly from the mill. If the mill had a stock of this pipe in the yard they might have shipped it off the yard, but they usually don't carry large stocks of pipe.

Q. But the seller here was Phelps-Dodge Mercantile Company, was it not?

A. Yes, sir, as agent for National Tube Company.

Q. Do you know whether or not Phelps-Dodge Mercantile Company hadn't acquired that pipe previously for a different purpose than what it was used for here?

A. I couldn't say that. I know this pipe was shipped.

directly from the mill, it wasn't shipped from Phelps-Dodge Mercantile Company. Whether they had previously placed an order for the pipe, I couldn't say.

Q. You don't know the details of that?

A. No, sir, I don't.

Q. Do you know the terms and conditions of payment for this pipe? By that I mean whether or not payment was made in cash or securities or in some other form of consideration?

A. I notice they took a 2 per cent cash discount on it, so I imagine the pipe was paid for in the limited time for the 2 per cent discount, which I believe was ten days. It may be a longer time for this outfit. Sometimes it is longer than that. I would say it was on direct sale.

Q. I am asking you generally about all these purchases you have involved. Do you know of your own knowledge what the terms and conditions of payment were for that pipe?

A. I don't know, Mr. Spencer, other than the majority of them took 2 per cent cash discount which would lead me to believe it was a cash transaction.

Q. That doesn't necessarily follow, does it?

A. Well,—

Q. If payment is made in some other form of consideration than cash, the purchaser might still be entitled to the discount?

A. It might have been. I wouldn't say because I didn't see the money actually change hands.

Q. I asked you a question a moment ago about the general level of pipe prices in 1939 in relation to other years and I believe you answered that you hadn't made a study of that. I wish you would turn to your working papers on United Gas Pipe Line Company and read into the record the notation appearing at the bottom of the last page of the report or statement made by United Gas Pipe Line Company.

A. This notation is at the bottom of the page. It states: "Attention is directed to the fact that this pipe was purchased at abnormally low prices and in no wise is representative of prices paid by this company for other pipe in its system. The cost of pipe as shown herein is subject for minor adjustments for additional freight charges on cer-

tain of the pipe which was reconsigned enroute for which charges the vendor has not rendered invoices."

Mr. Lange: A copy of that invoice was made available to the company staff to examine, wasn't it?

The Witness: Yes, sir, that is right, it was made available.

Mr. Spencer: It is not only on the invoice but the whole thing was made available, Mr. Lange.

The Witness: This was not an invoice and it was not on the purchase order. This is a summary of purchases on purchase order 75131, dated September 18, 1939, and filed with the Federal Power Commission.

Mr. Lange: By the company?

The Witness: By the company, yes, sir.

By Mr. Spencer:

Q. Now will you turn to Statement No. 2 of your Exhibit 231?

A. Yes.

Q. Do you show the same cost per foot for all sizes of pipe from 10 $\frac{3}{4}$ inches in diameter to 24-inch diameter?

A. Yes, sir.

Q. Is that the usual practice of the industry?

A. Well, I wouldn't say it was the usual practice, Mr. Spencer. We found in analyzing the actual purchase orders for pipe that we had pipe from 10 $\frac{3}{4}$ inches to 24 inches that had been bought at the same purchase price per ton.

Q. Isn't it a fact that the pipe manufacturers charge less per ton for sizes from 4 inches to 6 $\frac{5}{8}$ inches in diameter out of this whole group that you have used?

A. You say the least price per ton?

Q. Yes, the lowest price.

A. No, sir, I wouldn't say so.

Q. Would you say that they charged more per ton—

A. Yes, sir, I think they do.

Q. —for pipe in the bracket from 4 to 6 $\frac{5}{8}$ inches?

A. We are speaking on a tonnage basis.

Q. Yes.

A. Yes, sir.

Q. That is not your experience?

A. No, sir, I think the smaller the size of the pipe the more the cost would be of fabricating that. I couldn't expect to buy a 1-inch pipe for the same tonnage price as I would a $4\frac{1}{2}$ -inch pipe.

Q. I didn't go down as low as one inch, but that is all right for illustrative purposes. When you make that answer to me, are you taking into account the different discounts that are granted upon different sizes of pipe?

A. Well, they vary all over the place as far as discounts of pipe are concerned. One person may get this discount and the other person over here may get something else. I know that if I buy a certain amount of $4\frac{1}{2}$ -inch pipe, over and above that amount I would get a special discount, or on any other size where you would order a quantity of it.

Q. Well, let me put it this way: Taking into consideration the whole scale of pipe sizes and quotations made under the same conditions to the same party, would it not be true that you get a greater discount for certain smaller sizes of pipe here which give you a much lower price?

A. If you would take it on quantity purchases and—I have seen the time when we could buy $4\frac{1}{2}$ -inch pipe on account of the quantity discount practically as cheap as we could buy $3\frac{1}{2}$ inch pipe, but we bought enough $4\frac{1}{2}$ -inch pipe to give us that additional discount.

Q. Do you know what the current rates of discounts are on pipe purchases?

A. No, sir, I do not.

Q. Let's get at the problem this way: How do you justify using a flat price per ton for all classes of pipe?

A. Well, I have all classes of pipe from $10\frac{3}{4}$ -inch to 24-inch at the same price per ton.

Q. Is that your answer, then, because it has been done in certain transactions?

A. It was bought in 1939 and 1940 at the same price. I merely grouped this pipe, that is, from $10\frac{3}{4}$ inches up to get an average price.

Q. It wasn't done in all the cases you have used, however?

A. I don't understand that question.

Q. It wasn't done in all the cases that you have used, however, was it?

A. You mean the grouping?

Q. In all the purchases you have used.

A. I don't understand what you mean, Mr. Spencer.

Q. You answered my question this way: You said that you had used flat prices for all sizes of pipe because you found the sales had been made on that basis during the period you have used, is that correct?

A. That is correct, from 10 $\frac{3}{4}$ -inch pipe to 24-inch pipe.

Q. But it is not true as to all of the purchases you had utilized here in arriving at your computation?

A. Well, no, the majority of this small pipe was bought by the United Gas Pipe Line Company on one purchase order. The other pipe was in somewhat larger size and some of it was in somewhat smaller size.

Q. But not at a uniform price?

A. No, sir.

Q. Take one of those purchases where you say that the manufacturer sold all sizes of pipe at one price. How do you know what weighting the manufacturer did in order to arrive at that kind of a flat price?

A. I know that all steel is based upon a ton price. It makes no difference whether you are buying pipe or structural steel, the basic charge for that is on a ton basis and the United Gas Pipe Line Company, as I have stated before, bought all sizes and weights of pipe from 10 $\frac{3}{4}$ -inch to 22-inch at the same price of \$43 per ton, f.o.b. the mill.

Q. Do you know of any pipe manufacturer's quotations where they give a flat rate for all sizes of pipe?

A. I don't know of any quotations. It is according to the amount of pipe you are going to buy. If I am going to buy two or three miles of 22-inch pipe and I want a small amount of 10-, 8-, or 4-inch pipe, I can usually buy that small amount, having it thrown in for the same price at which I buy the other pipe.

Q. It is a matter of negotiating at the time of purchase, isn't it?

A. Yes, sir, it is.

Q. Isn't it possible that in applying this situation to Colorado Interstate Gas Company and Canadian River Gas Company that the flat price they came out with, assuming they were conducting these negotiations, would be different from the flat price United or somebody else came out with

because of sizes and quantities they had involved were also different?

A. If they stay by the larger quantities and larger sized pipe, it seems to me they should be able to get—

Q. I am only talking about differences.

A. They would differ—will you read the question, please, Mr. Reporter?

(The question referred to was read by the reporter, as set forth above.)

The Witness: They could be either higher or lower at negotiated prices.

Mr. Spencer: Mr. Examiner, I think we ought to take a short recess at this time.

The Trial Examiner: Very well, we will take a 5-minute recess.

(At this point a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. Spencer:

Q. Would you say, Mr. Hill, that the pipe manufacturers' quotations covering prices and discounts as to various sizes of pipe was an indication of the manufacturers' idea or conception of the relative cost and value of the different sizes of pipe?

A. That would be all based on the quantity of pipe that you were purchasing, it seems to me.

Q. Well, assume the same quantities for the purpose of answering the question.

A. There would be some difference on the ton price for different sizes of pipe.

Q. Assuming the same quantities of pipe, that would be true, would it not?

A. There would be some difference.

Q. Now, you have made your working papers available to us, Mr. Hill, and we have computed the tons of pipe involved in the various sizes from 10¾-inch to 24-inch.

A. Yes.

Q. Which I will read into the record:

24	Inch	30,378	Tons	37.89	Per Cent
22	"	187	"	.23	"
20	"	2,180	"	3.50	"
18	"	15,260	"	19.03	"
16	"	23,344	"	29.12	"
14	"	185	"	0.23	"
12 $\frac{3}{4}$	"	7,838	"	9.78	"
10 $\frac{3}{4}$	"	177	"	0.22	"
		80,178	"	100.00	"

Now, subject to check by you or Mr. O'Connor and subsequent correction of the record, does that seem approximately correct to you, Mr. Hill?

A. I think it does.

Q. Now, as we figure it, the various sizes and tons of pipe which will be required by Colorado Interstate Gas Company in a reproduction of its present line would be as follows:

22	Inch	32,986	Tons	59.03	Per Cent
20	"	19,309	"	34.55	"
16	"	1,621	"	2.90	"
12 $\frac{3}{4}$	"	343	"	.61	"
10 $\frac{3}{4}$	"	887	"	1.59	"
10	"	737	"	1.32	"
		55,883	"	100.00	"

Do you think if your purchases of pipe which you have used here had had these sizes and this tonnage which would be required by Colorado Interstate Gas Company, that your average weighted price would have been different?

A. I think that since the majority of the pipe used—

May I take the two companies combined, or do you just want the Colorado Interstate? I have used them combined.

Q. For the purpose of answering the question you may take into consideration our computation as to the sizes and tonnage of pipe required by Canadian River Gas Company to reproduce its portion of the present main line, which is as follows:

.22	Inch	49,115 Tons	.98.85	Per Cent
6 $\frac{5}{8}$	"	32 "	.16	"
4 $\frac{1}{2}$	"	46 "	.24	"
3 $\frac{1}{2}$	"	107 "	.55	"
2 $\frac{3}{8}$	"	38 "	.20	"
		19,338 "	100.00	"

Now you can answer them both together, Mr. Hill.

A. Well, I would say that if the Canadian River Gas Company and the Colorado Interstate Gas Company bought all this pipe at the same time that this amount of pipe involved—that they would undoubtedly get the same price for the whole lot; that is, as far as the tonnage basis goes.

Q. That isn't quite the question I had in mind. I asked you if you think your average weighted price would have been different.

A. Well, there might have been some small discrepancies there. As I say, all of these prices are negotiated. The majority of the pipe in the system being 20- and 22-inch pipe would have a greater bearing on it than the smaller sizes of pipe from a tonnage standpoint.

Q. That is to say, the average price that you come out with is influenced or predominated by the size of the pipe that you want the greatest quantity of, is that correct?

A. From the 10 $\frac{3}{4}$ -inch to the larger size, 22-inch, which is the majority of the Canadian River and Colorado Interstate pipe. I have used a different price from 8 $\frac{5}{8}$ inches down, based on the information that I had that the cost of 8 $\frac{5}{8}$ inches down at that time is a different average price and somewhat higher than 10 $\frac{3}{4}$ -inch to 24-inch.

Q. Well, is it true, assuming those figures are correct, that 22-inch pipe which you have used in your calculations constitute less than one per cent of the total tonnage of pipe used?

A. Yes, and the 8-inch pipe and the 24-inch pipe that I have used for my calculations constitutes a good sized portion of this pipe. I would think it would be reasonable to believe that the price of 22-inch pipe would be somewhere between the 18-inch and the 24-inch, although I didn't have that in here.

Q. Well, if you combined all of your prices between 18 inches and 24 inches, inclusive, what is the approximate

total percentage as shown by my figures? Just roughly, Mr. Hill.

A. Well, I figure something over 60 per cent of it.

Q. I think that's right. Now, what percentage of the 22-inch pipe is shown in my calculation for Canadian River Gas Company?

A. 22-inch pipe.

Q. Yes.

A. 98.85 per cent according to your calculations.

Q. That is to say, less than 2 per cent of the total tonnage of pipe required is represented by smaller sizes of pipe, is that correct?

A. Yes.

Q. Now, assuming that you and I are experienced pipeliners, and I make the assumption to cover myself rather than you, and we wanted to reproduce the present main line of Canadian River Gas Company and Colorado Interstate Gas Company from Bivins to Denver and assuming that we had construction contracts and we wanted to get the job done in the shortest possible time and it was up to you and me to buy the pipe for the line, to have it on the job at the proper time so as not to delay construction. How would we go about it?

A. I don't agree with the way we go about it, because if I was going to purchase this amount of pipe and going to build it I would never put the construction through in the field until my pipe prices had been negotiated and I knew that I had pipe coming out of the mill that I could put in the ground.

Q. Well, you line it up to suit yourself. We have got to build a pipe line here and we have got to get the pipe for it; so you line it up to suit yourself.

A. All right, sir. Then we would go into the open market, I assume, to buy this pipe and take quotations on it and we would buy it at the cheapest price we could possibly buy it for.

Q. What is the first thing you do about the purchase of pipe?

A. Well, the first thing that I would do about the purchase of pipe would write the specifications on it—the type of pipe I wanted.

Q. Would your specifications include designations of time and place for deliveries and matters of that character?

A. Well, that is usually taken care of at the time that you actually start shipping your pipe or at the time you make your negotiations for the price of pipe. Your order has to be placed, of course, before those shipping instructions can go out.

Q. Do you agree with me that the time element on the delivery of pipe is an essential element of our negotiation?

A. Yes, sir, it is, Mr. Spencer. Sometimes the agreement is usually made at the time of purchase—at the time of placing the purchase order the amount of pipe you want delivered, whether a mile or two miles or two and a half miles a day, after that pipe gets under way, you usually get the pipe pretty promptly.

The mills seem to be able to turn it out pretty well; however, I have allowed cost in Exhibit 231 for tracing shipments of pipe and making pipe available promptly so it won't hold up construction work.

Q. Well, let's eliminate the tracing for a moment. We are going to be very efficient for a moment and not do that. Let's assume that we have figured out our specifications and we know when and where we want the pipe delivered.

Now, I think you said you get quotations next, is that right?

A. You negotiate the price of the pipe; yes.

Q. We get the quotation before we start negotiating, do we not?

A. Well, that is usually the way.

Q. We get it from several companies, I assume?

A. Yes, sir.

Q. Do we take into consideration the location of these plants and mills from the standpoint of freight?

A. They do sometimes. A lot of times you purchase pipe of National Tube Company and if the purchase orders—I mean the quotations, are anywhere near close, why, whether the pipe be shipped from Youngstown or McKeesport or from Lorain, they will usually equalize that freight on such and such a point on a large part of the purchase.

Q. Now, we know what we want and we have these quotations. Now what do we do?

A. Well, take your quotations on pipe and make a sum-

mary of them and if you think the prices are too high, why, you can call the men in and do a little more negotiating: If you think the prices are right, if you have got a low bid in there, I think it would be proper to place that low bid with the pipe manufacturers that put that low bid in there.

Q. Is it fair to say, then, that we keep shopping around on these quotations until we get a proposition that seems most economical to us?

A. That is usually the way it is done. You aren't going out and pay an excessive price for pipe if you can get it cut down a little.

Q. Would you say that the amount of pipe and other factors involved in a transaction such as we are assuming would be a very large order for any steel mill?

A. Yes, it would be a pretty good sized order; yes, sir—81,000 tons of it. They wouldn't accept such an order a few years back.

Q. You could probably count the number of mills in the United States pretty easily that could handle an order of that size in the time limits that would be placed upon it, is that not true?

A. Pipe is usually split between mills on that account but they usually get the same price on it.

Q. Now, can you tell me, or can you say fairly that you have any purchase of pipe which you have used in your Exhibit No. 231 that is comparable to the transaction we have just discussed?

A. You mean according to the size—20 and 22 inch?

Q. Size and necessity and everything else.

A. I think all of these pipe purchases that were made by these different companies were negotiated just like we talked about them being negotiated. It is true that we don't have a great deal of 22-inch pipe.

Q. Well, what do you have in the way of tonnage as compared to the tonnage involved here, Mr. Hill? A. I recall the figure we discussed this morning was approximately 30,000 tons for Panhandle Eastern as the highest.

A. That's about right, yes, sir. That's 30,000 tons to Panhandle Eastern and the United was the next largest purchaser that we have. Do you want to refer back to your pipe?

Q. Yes.

A. I think that the reason that I have averaged these

prices in here is to get an average price for the simple reason I didn't have a lot of 22-inch pipe in there, but it seems reasonable for me to believe that the largest purchase that I have was 18-inch and 24-inch pipe, but that price of 22-inch pipe would be some place between those prices; that is, between \$43 a ton paid to National Tube Company by United Gas Pipe Line Company for 18-inch pipe and \$47.04 per ton paid to A. O. Smith Corporation by Panhandle Eastern for 24-inch pipe.

Q. Well, I will ask you this question: Is there any way for you and I to tell at the moment what price might result from our negotiations in this assumed transaction?

A. I couldn't say, Mr. Spencer. I couldn't answer that because I don't know what price. We might go up there and get it for a much cheaper price than this I have used. That's the reason I have used an average price.

Q. And also it might be higher?

A. Also might be higher, yes.

Q. I think that's right. Now, in addition to pipe prices, you have also made some treatment in your Exhibit No. 231 of Dresser couplings, is that correct?

A. Yes.

Q. In that connection, I believe you stated that the Denver line was constructed with pipe, Grade A lapweld pipe with average length of 19 feet?

A. Yes, sir. That was taken from Exhibits 68 and 70.

Q. And in that way one Dresser coupling would be required every 19 feet?

A. Well, on the average. I say, it wouldn't be every 19 feet, because pipe doesn't run that way.

Q. Approximately that?

A. Yes.

Q. Now, I believe for the purposes of your computations in Exhibit No. 231, you are substituting Grade B, seamless. You are basing your computations upon pipe of a different grade.

A. Are we talking about couplings or pipe? I understood it was couplings.

Q. I am trying to get down to the point where you eliminate about half of the Dresser couplings. I may be going about it in a poor manner, but with that explanation you might explain what you have done here.

A. I have used double random length pipe instead of single random length pipe, which is a common practice.

Q. In other words, you have substituted double random pipe for the average 19-foot lengths?

A. Yes, taking into account that the price was approximately the same.

Q. And by doing that—I finally arrive—you eliminate about half of the Dresser couplings?

A. Yes, sir.

Q. This double random length pipe represents an improvement of pipe construction since the main line of Colorado Interstate and Canadian River Gas Company was constructed?

A. Yes, sir, it does. That is for large-sized pipe.

Q. You do not question the fact that the present line is constructed of lapweld pipe with an average of 19 feet per joint?

A. No, sir, that is the way it was constructed.

Q. Are you questioning the design of the engineers in constructing a pipe line with that type of pipe at that time?

A. No, sir, I am not.

Q. You also are not questioning the fact that the company bought, paid for and installed all of the Dresser couplings that are indicated in Exhibits Nos. 68 and 70?

A. No, sir, I am not.

Q. Have you taken into consideration any additional cost in installing your double random length of pipe rather than what was used?

A. I have not figured any construction cost whatever.

Q. Do you have any ideas on that subject?

A. Well, it would run approximately the same I think. It may cost you a little more to handle double length pipe, but you would have a saving there on cutting out one coupling. I really couldn't say about the construction cost, as I haven't gone into it, Mr. Spencer.

Q. Would you use double random length pipe throughout the whole line—I mean over the mountains and through the valleys and under the rivers?

A. Well, I have been over that line, Mr. Spencer, and there is approximately—this is offhand now—just offhand I would say there would be approximately 80 per cent of that line that you could use double random length pipe on.

In places like the Purgatoire River crossing there I would say that maybe some single random length pipe would go in there. It doesn't amount to a great deal.

Q. You think that at least 80 per cent could be constructed with double random length pipe?

A. That's just offhand. I wouldn't want to say without going back into my papers on it. This is just on the pipe price is all.

Q. Have you taken into consideration—well, if you can't use double random pipe throughout the length of the line, there would be no occasion to buy that much double random pipe, would there?

A. All but the exception of a small amount of it, you could use double length. On the other side of the Purgatoire River I might have a few joints in there going down one side of the canyon and up the other where I might choose to use single random length pipe, although I could put the double random in there, I think.

Q. You made no adjustment for that in these calculations?

A. No, sir, I have not.

Q. Now, would you consider the fact that this line as now installed consists of single random length pipe evidence of obsolescence in the existing line?

A. No, sir. All I have done is take advantage of the development in the art of making pipe, that's all. I didn't take into consideration obsolescence.

Q. Well, do you consider that an improvement in the art of pipe line construction results in obsolescence?

A. Well, I wouldn't say that. I don't think you would have any obsolescence in the pipe, that it would become so that the gas couldn't pass through it. I think it will stay there.

Q. What I am trying to find out here, Mr. Hill, is, if you have given us enough credit in your depreciation studies here of this pipe line in view of what you think about single random length pipes.

A. It wouldn't have any effect on the lives that I have set on this pipe.

Q. It wouldn't?

A. No.

Q. The pipe is all right, is it, what we have?

A. Yes, sir, it is in good condition. It's all right.

Q. You have no criticism of that?

A. No criticism on the pipe.

Q. I take it your answer is, then, that you don't recognize any obsolescence in the existing pipe line?

A. No, sir.

Q. Now turn to your Exhibit No. 231-A, Mr. Hill.

A. Yes, sir.

Q. Start me off on this cross examination. Can I impose upon you to give just a brief explanation of what the intent and purpose is of this particular schedule?

A. You want me to explain it?

Q. Yes, please.

A. All that I have done here is—the majority of pipe that I analyzed was seamless Grade B pipe and most of it in double random lengths. All that I have done here is to substitute a seamless Grade B pipe for the lapweld pipe that is now in place in the line.

Q. Which results in what?

A. Which results in a saving of some \$674,135.

Q. Because we have less tonnage?

A. Yes, sir.

Q. Now, I don't want to duplicate my questions, but I will have to ask you a few. There isn't any question but what the present line as it now exists is a Grade A lapweld pipe?

A. According to Exhibits 68 and 70, yes, sir.

Q. And the pipe that you are proposing to substitute here is a different grade and a different type of pipe?

A. It is a double random length pipe, Grade B, yes, sir.

Q. Now, how do you get less tonnage by the use of your substitute pipe?

A. You have a little less wall thickness for the same operating pressures.

Q. I thought so. Now what does wall thickness have to do with the life of the pipe, Mr. Hill?

A. Well, wall thickness and the life of the pipe depend on the soil conditions that the pipe is placed in.

Q. Would you say generally that a thick pipe has longer life than a thinner pipe under identical conditions?

A. I think it would, yes, sir.

Q. Now, what other differences are there in the two

types of pipe other than wall thickness—I mean important differences, Mr. Hill?

A. Oh, nothing except the working pressures of the two.

Q. What would you say about the metallurgical composition of the pipe itself?

A. Grade B is much higher than Grade A.

Q. Higher what?

A. Well, the tensile strength in it is much higher.

Q. It would have to be that or it couldn't stand the pressure.

A. That's right.

Q. Well, do you know whether there is any difference in composition which might lead one to deteriorate more rapidly than the other, leaving out the question of wall thickness?

A. Well, years ago they used to claim that maybe wrought iron or open hearth iron might last a little longer than steel but that is not prevalent in the practice of making steel today. Steel pipe today will last just as long as open hearth or wrought iron pipe, according to the steel companies' specifications on it.

Q. You make your substitution here of pipe only for the reason that it results in a lower cost?

A. Yes, sir.

Q. No other consideration?

A. It is a lower cost and if you are buying that pipe today or building this line today, you undoubtedly wouldn't use the single random length pipe. You would use a double random length pipe.

Q. And here again you are not questioning the design or construction of the pipe line in the first instance by its engineers?

A. No, sir. At the time that line was built that was good construction.

Q. Well, I want to ask you to explain for the record the source of your formula for converting one type of pipe to the other type of pipe.

A. Well, all we did was to use the working pressures of Grade B seamless and the working pressures of the Grade A lapweld and took corresponding pressures in the seamless pipe equal to the working pressures on the lapweld.

Q. What tensile strength did you use for Grade A lapweld pipe?

A. Tensile strength in Grade A lapweld pipe is about 45,000 pounds per square inch.

Q. 45,000 pounds per square inch?

A. Yes, sir.

Q. Give me the same figures for the other.

A. For the Grade B?

Q. Yes.

A. 70,000 pounds.

Q. What is your source of information for those figures?

A. The National Tube catalogue.

Q. What date?

A. It was copyrighted in 1939.

Mr. Spencer: Mr. Examiner, I have completed my cross examination on Exhibit No. 231 and Exhibit No. 231-A in so far as I can go at this time. I think Mr. Hill may be released and if any additional questions need to be answered I understand from Mr. Lange that undoubtedly Mr. O'Connor can be made available to answer them and that will be satisfactory to me.

Mr. Lange: Of course, it would depend upon whether the additional information that you may seek at that time applies only to the matters of computations, because Mr. Hill is the one that has made this study, that is, the one who has computed the figures from the information he received that was furnished by the company.

Mr. Spencer: I am sure I will not want anything that Mr. O'Connor will not be able to testify to.

Mr. Lange: I see.

Mr. Spencer: And I may need nothing more.

The Trial Examiner: Do you have any redirect, Mr. Lange?

Mr. Lange: Yes.

Redirect Examination.

By Mr. Lange:

Q. Mr. Hill, Mr. Spencer referred to the matter of a number of companies, giving their names, who he says are

in the industry and they have had construction of considerable mileage of pipe lines. Now, as far as you know, that is just hearsay? You have made no investigation yourself?

A. No, sir, I have made no investigation myself.

Q. As to whether any of those companies had any construction or the mileage of any such construction?

A. No, sir, I haven't made a study. It is just a common practice in the gas business to grapevine those matters.

Q. That is the only way you heard of that?

A. Yes, sir, and from reading technical magazines.

Q. You have no knowledge as to what extent this line that you call the Milwaukee line has been built or what portion of that mileage or anything in connection with it? It is just hearsay?

A. It is just hearsay with me and what I have read in technical magazines.

Q. You haven't heard any line has been constructed into Milwaukee?

A. No, sir.

Q. You don't know whether any line labeled the Milwaukee Pipe Line has been in fact constructed?

A. I couldn't tell you.

Q. Reference was made as to the basic material you utilized in preparing Exhibit 231 which consists of, first of all of the invoices or copies of the invoices of pipe purchases, isn't that true?

A. Yes, sir, I have those invoices of pipe purchases.

Q. Those are actual?

A. Yes, sir, they are actual invoices from the pipe line companies.

Q. The invoices represent actual purchases, that is, they are photostatic copies of actual purchase orders?

A. Yes, sir, that is what they are.

Q. Reference was also made to what was termed sample invoices. Explain exactly what you mean by the use of the word "sample" in connection with those invoices.

A. I meant by that that I didn't have all of the invoices covering the purchase orders. It was just a portion of the invoices that were sent along with the purchase orders.

Q. But in the actual mechanics the purchase order was actually made?

A. Yes, sir.

Q. In following that certain deliveries were made under those purchase orders?

A. Yes, sir.

Q. Those certain deliveries were covered by what you would term sample invoices?

A. Yes, sir, that is correct.

Q. The word "sample" was utilized because there may have been some subsequent shipments under those purchase orders that had not been completed?

A. Yes, sir, there was. I don't have all of the invoices to back these purchase orders up.

Q. The reason I wanted to bring that out was the word "sample" might have been somewhat misleading, it being hypothetical. It is just the other way around, isn't it?

A. Yes, sir.

Q. It is the concrete performance of the purchase order, that is, one purchase of it?

A. Yes, sir.

Q. So that these purchase orders, when followed by sample invoices, show that the purchase orders were actually being put into effect and being carried out?

A. Yes, sir.

Q. And that obtains with reference to all of the sample invoices that you have in your working papers?

A. Yes, sir.

Q. They followed through on the original purchase orders?

A. Yes, sir.

Q. You were requested by Mr. Spencer to make some computations. I think the figures are reflected on one of those sheets given to you, the conversion of the 16 to 24 inches of the total. Have you calculated that?

A. No, sir, I have not.

Q. What I want to know is what the 16 to the 24 inches are to the total per cent.

A. I haven't figured that out. I will have to go through these working papers.

Q. You had it figured from 18 to 24. I wanted it figured from 16 to 24.

A. All right. That amounts, according to Mr. Spencer's calculations, to 88.77 per cent.

Q. Now, you have had occasion to carefully examine

Exhibits Nos. 68 and 70 in connection with the preparation of your Exhibit No. 231, have you not?

A. Yes, sir.

Q. I think in order to get into the record the tonnage figures—we have calculated those as to each of the companies, as well as to the total companies—I will ask you to check these figures to see whether you find them correct, and also the percentage of the main line to the total

A. Yes, sir, these figures check with my work sheets.

Q. Will you read those figures into the record, Mr. Hill, if they are correct as you found them from your examination? Are they correct as you found them?

A. According to my working papers, the tonnage that is shown on this sheet is correct.

Q. Are the percentages there calculated correctly?

A. Yes, sir.

Q. Very well, if you will read them into the record.

A. Canadian River Gas Company—

Q. That is, subject to any check Mr. Spencer may desire to make.

The Trial Examiner: Why not have them copied into the record by the reporter?

Mr. Lange: That is satisfactory.

(At the direction of the Trial Examiner, the following figures were copied into the record.)

Canadian River Gas Company

Total Tonnage (Exhibit 68)	19,345 Tons
Main Line (Exhibit 231-A)	19,114 Tons
Main Line Per Cent	99 Per Cent

Colorado Interstate Gas Company

Total Tonnage (Exhibit 70)	61,392 Tons
Main Line (Exhibit 231-A)	52,295 Tons
Main Line Per Cent	85 Per Cent

Both Companies

Total Tonnage (Exhibits 68 & 70)	80,737 Tons
Main Line	71,409 Tons
Main Line Per Cent	88 Per Cent

By Mr. Lange:

Q. Mr. Hill, these copies of actual purchase orders of the companies, each one of them bears the date of the execution of it?

A. Yes, sir.

Q. I wonder if you could read those into the record with each company name. How many of them do you have?

A. There would be five major purchase orders.

Q. All right.

A. This is the purchase order issued to the National Tube Company by the United Gas Pipe Line Company, dated September 18, 1939. It covers shipments of pipe on into the year 1940.

This is a purchase order issued to the National Tube Company by the Northern Natural Gas Company, dated August 10, 1939.

This is a purchase order issued to the Youngstown Sheet & Tube Company by Northern Natural Gas Company, dated August 12, 1939.

This is a purchase order issued to Republic Steel Corporation by Northern Natural Gas Company, dated August 12, 1939.

Q. How many have you altogether in that list, Mr. Hill?

A. There are several purchase orders scattered through here and the same company may have issued two or three of them.

Q. They are?

A. Yes.

Mr. Lange: I think we may save time by having that list made up by Mr. Hill. Then we can put it in the record rather than have him read it into the record.

The Trial Examiner: You want to strike that portion he has read?

Mr. Lange: Yes.

The Trial Examiner: All right.

By Mr. Lange:

Q. Mr. Hill, will you prepare a list of the purchase orders and the names and the dates?

Mr. Spencer: Off the record.

(Discussion outside the record.)

Mr. Spencer: I would suggest that he might add to it the outside diameter of the pipe, the weight per foot pounds, quantity, feet, total weight in tons, total price per ton, f.o.b. mill, total purchase price f.o.b. mill, that information. We have made up such a computation which we would be glad to hand to Mr. Hill for checking.

Mr. Lange: That would be fine, Mr. Spencer. That would give a complete picture of it and if you have that prepared—

Mr. Spencer: As a matter of fact, I have just found out we copied something that the witness had.

The Witness: It was taken from my working papers.

Mr. Lange: Mr. Spencer has it all compiled. If that checks out with Mr. Hill's figures we can use it.

The Witness: I think it is the same as shown on my working sheet that I let Mr. Roberts have.

The Trial Examiner: All that would be required would be to make copies of your working sheet?

The Witness: Yes.

Mr. Lange: That will give the actual picture.

The Trial Examiner: Very well.

By Mr. Lange:

Q. Now, on Exhibit 231-A, Mr. Hill, I just want to ask whether the Grade B seamless and electric weld pipe that you have set forth in that exhibit as compared with the lap-weld pipe represents an improvement in the art of pipe construction.

A. Yes, sir, it does.

Q. And manufacture, too?

A. Yes, sir.

Q. And the Grade B seamless pipe is largely used in

the industry at present as distinguished from the lapweld pipe?

A. The majority of pipe we analyzed from these pipe companies was Grade B seamless pipe.

Q. In these purchase invoices?

A. Yes, sir.

Q. And this computation that you made that is designated as Exhibit 231-A was made in connection with Exhibit 231?

A. I didn't understand you.

Q. This computation you made of Exhibit 211-A was made in connection with your Exhibit No. 231?

A. Yes, sir.

Q. The main distinction to be borne in mind, however, with reference to Exhibit 231-A is that it covers only pipe on the main line?

A. Yes, sir.

Q. And no laterals are included?

A. No, sir, just the main pipe line.

Mr. Lange: I believe that is all, Mr. Examiner, excepting that Mr. Hill is to check these various computations and if he finds any corrections or changes to be made either he or Mr. O'Connor will testify with reference to them.

The Trial Examiner: Do you have any further questions, Mr. Spencer?

Mr. Spencer: I have just two or three questions here.

The Trial Examiner: All right.

Recross Examination.

By Mr. Spencer:

Q. As a matter of fact, Mr. Hill, you have not utilized any quotations on Grade A lapweld pipe in your Exhibit No. 231?

A. No, sir, I haven't. It has all been electric weld and Grade B pipe.

Q. Why do you restrict Exhibit 231-A to the main line and eliminate laterals?

A. Well, the majority of the pipe was in the main line

and that is the only reason I didn't take into account the lateral lines.

Q. Is that the only reason?

A. I could have taken in the lateral lines. That is the only reason, though, the majority of the pipe is in the main line. A very small amount is in the lateral lines.

Q. You said that if you included 16-inch pipe in your pipe sizes you would have in excess of 88 per cent of your pipe purchases representing sizes between 16-inch and 24-inch pipe, is that correct?

A. Yes, sir according to our figures.

Q. According to the figures you have?

A. Yes sir.

Q. However, those figures and that percentage is restricted to your first class pipe, that is, it is limited to the classification you have between 10 $\frac{3}{4}$ -inch pipe and 24-inch pipe?

A. Yes, sir, that is right.

Q. If you include all sizes of pipe in both classifications you would have a smaller percentage, would you not?

A. I think you would, yes, sir.

Q. Isn't it obvious you would?

A. Yes, sir, it is.

Q. Now, the percentage given for Canadian River Gas Company of 98.85 per cent is based upon all sizes of pipe without any split between the two classifications?

A. Yes, sir.

Mr. Spencer: That is all.

Mr. Lange: That is all.

The Trial Examiner: I wonder if we might not reserve Exhibit No. 231-B for the work sheet of Mr. Hill when it is presented?

Mr. Lange: I think that would be in line, Mr. Examiner, because we could then have them all together.

The Trial Examiner: Very well. As I understand it, Mr. Hill will be excused from the hearing?

Mr. Spencer: Yes, sir, that is agreed between counsel.

Mr. Lange: Yes, sir.

Before that, I would like to offer these two exhibits, being Exhibits 231 and 231-A.

Mr. Spencer: I have no objection to the Examiner passing upon the exhibits at this time, but I wish to object to the exhibits themselves as being irrelevant, immaterial and incompetent, particularly because the exhibits purport to reproduce and show the cost of reproducing an existing plant with a substitute plant which I feel has no bearing or foundation in law or any rate procedure regulations that I know of.

The Trial Examiner: The objection will be overruled and Exhibits Nos. 231 and 231-A will be received in evidence.

(Exhibits 231 and 231-A, Witness Hill, received in evidence.)

The Trial Examiner: I think perhaps, Mr. Spencer, if it is satisfactory, we might take up Exhibit 231-B. Could you have that available sometime this afternoon, Mr. Lange?

Mr. Lange: Yes, I think so.

The Trial Examiner: Off the record.

(Discussion outside the record.)

The Trial Examiner: On the record.

Mr. Lange: I will offer this exhibit at this time, Exhibit No. 231-B.

Mr. Spencer: I will make the same objections to the offer I made to Exhibits Nos. 231 and 231-A, Mr. Examiner.

(Vol. LXXX, pp. 11766-11823.)

The complainant, the City and County of Denver, did not offer evidence as to the cost of reproducing new the entire properties of the respondent as they now exist, but did offer, through its witness Tamblin in his Exhibit 232 (Vol. LXXVII, p. 11260), estimates of the cost to reproduce certain buildings of the respondents by way of rebuttal to the estimates of the engineer Rhodes. This evidence of the City was the only evidence of the City, except copies of the annual reports filed by Colorado Interstate with the Sec-

retary of State of Colorado, abstracted supra, offered by it in support of its complaint. From 1914 to 1937, the witness was in business for himself as a general contractor constructing buildings of all types and sizes. He listed six large buildings including Colburn Hotel, ten stories; Cosmopolitan Hotel, twelve stories; and Continental Oil Building, ten stories, all in Denver, which he had constructed. At one time he conducted an evening school to give instruction in plan reading and estimating and in 1922 he published a book entitled "The Building Labor Calculator" (pp. 11263, 11264). In 1937 he was employed as an appraiser in the office of the Assessor of the City and County of Denver and was at the time chief appraiser in the city assessor's office (p. 11267).

He was instructed by the City on November 25, 1940, to check valuations placed on certain buildings of respondent as presented in Exhibits 68 and 70. He visited and inspected the buildings at Sullivan, Denver, Devine in Colorado and Bivins in Texas (p. 11268). He accepted Mr. Rhodes' material costs and labor scales as being correct. He assumed a contractor's profit of 10% (p. 11269). In his exhibit he shows for the Devine Station building \$82,543 as against \$110,643 in Exhibit 70. His figure for the Denver Meter Station was \$11,912 against \$20,910 in Exhibit 70. For the Sullivan Station he showed \$26 as compared with \$371 in Exhibit 70. Upon being questioned as to the breakdown of his several unit costs he answered: "It's all judgment." (Vol. CI, p. 15695). He visited the Dalhart Station but did not go to the Canyon Station. The general range of costs was fairly close throughout the period from 1927 to the present time (p. 15716). If the costs were greater from 1937 to date than they were in 1928, it would be due in part to less efficiency of labor and some raises in wages in some branches of work (p. 15715). He noticed construction work going on at the company's Devine Station but made no inquiry as to buildings of Canadian or Colorado Interstate recently built, although he knew another compressor station was being built at the time of his investigation (p. 15719). He did not make any inquiry as to the cost of such structures being erected at Dalhart during 1939 and 1940 (p. 15719). It would not mean anything to him if the Dalhart main compressor building was constructed in 1939 and

1940 at 23¢ per cubic foot, as compared with 12½¢ per cubic foot, arrived at by taking his cost and the cubic content of the Devine main compressor station. It would all depend upon how the cubing was done (p. 15720).

For dwelling No. 11, built in 1937 at Devine at a cost of \$4,477, as shown on page 68, Exhibit 139, his valuation was \$3009.

"Q. Now, then, the Devine five-room dwelling No. 11, built in 1937 at a cost of \$4,477 as shown on Page 68, Exhibit No. 139, is next. The valuation you have placed upon that building is \$3,009. In view of what you have said about the comparative cost of building construction between 1927 and 1928 on the one hand and 1937 on the other hand, does that mean anything to you, your \$1400 under the actual cost?

"A. If your costs that you are talking about are based upon the kind of figures I find in this exhibit, it doesn't mean a thing to me.

"Q. The same thing would be true of Dwelling No. 12, which is a five-room house built in 1937 at Devine, cost \$6576, shown on Page 68, Exhibit No. 139. With your cost of \$4221, that still doesn't mean anything to you?

"A. It depends upon what you are including in cost. If you are paying a fancy salary and a lot of things I haven't considered as a part of the cost, it still doesn't mean anything to me. They are very cheap buildings, very cheap.

.

"Q. Just one other thing along that line is the Denver metering station. Your valuation is \$11,912 and the book cost according to Exhibit 139 page 77, was \$19,008.

"A. I am not figuring book cost." (pp. 15721, 15722.)

In the last five years he had only built two residences (p. 15724).

He never had any experience with gas pipe lines, and had never built a compressor station or any structure in connection with any compressor station (p. 15728).

His construction of the Cosmopolitan Hotel had not been profitable because it had been badly financed (p. 15730). He denied that he had underestimated that job or the Continental Oil Building job. He denied that he had overlooked a \$25,000 item in estimating the Continental Oil Building job. "No, I didn't overlook it, but in adding up the figures, one sheet got out of the estimate and was not included in the total." (p. 15731).

"Q. How did it happen the surety company brought a suit against you and got a judgment against you in connection with that bond on the Continental Oil Building?"

"A. They never brought a suit against me or a judgment or never asked me for a dime. They wrote me complimenting me upon the manner in which I had handled the job."

"Q. What was the name of the surety company?"

"A. The American Surety Company of New York."

There was then marked for identification as Exhibit 310 a certified copy of witness' voluntary petition in bankruptcy. On objection the respondents withdrew the offer after the witness' attention was called to it and he then answered the questions as follows:

"Q. Mr. Tamblyn, I show you a document here marked for identification as Exhibit No. 310 and ask you if you have not listed there a judgment obtained against you by the American Surety Company in connection with the Continental Oil Building."

"A. Yes, it's coming back to me now." (p. 15734).

GEORGE M. TAMBLYN called as a witness by and on behalf of the City and County of Denver, being first duly sworn, was examined and testified as follows:

Direct Examination.

By Mr. Gibson:

Q. State your name.

A. George M. Tamblyn.

Q. Have you had occasion, Mr. Tamblyn, to examine respondent's Exhibits Nos. 68 and 70 in this case?

A. Yes, sir.

Q. Have you been assigned by the City and County of Denver to go over the items shown on those exhibits?

A. I have.

Q. And you have made an estimate?

A. Yes, sir.

Q. What is your profession or trade?

A. Building contractor, appraiser and estimator.

Q. Have you prepared a statement showing your qualifications and experience?

A. I have.

Q. In connection with that statement, have you also included a written statement of the items shown in your exhibit?

A. I have.

Mr. Gibson: I would like to have this marked for identification as an exhibit.

The Trial Examiner: It will be marked for identification as Exhibit 232.

(Exhibit 232, Witness Tamblyn, marked for identification.)

By Mr. Gibson:

Q. Will you just read your statement, Mr. Tamblyn, into the record?

A. "Statement of Qualifications and Experience of Gordon M. Tamblyn.

"1. Name and Address: Gordon M. Tamblyn, 1108 South Steele Street, Denver, Colorado.

"2. Age and Place of Birth: Born in England, April 24, 1885; age 55 years.

"3. Education: 1888-1892: I received instruction at a private day school.

"1892-1900: I attended public school and passed the eighth standard (equal to twelfth grade in the United States).

"1900-1902: I was employed by a brick and stone con-

tractor assisting in various ways, and attended evening school.

"1902-1905: I was indentured as carpenter's apprentice for a four-year apprenticeship to David Tamblyn, contractor a cousin of my then deceased father. After serving three years my employer died and the business was dissolved. During this period I also attended evening classes in architectural drafting and other subjects which would advance me in the building and construction trade. During the period of 1900-1905 I was assisted in my studies by an elder brother who chose teaching as a profession.

"4. Employment: 1905-1906: I was employed as a carpenter and cabinet maker, at full journeyman's pay.

"1906-July 1907: I was a carpenter foreman in England; I came to the United States and located in Denver, Colorado, August 15, 1907, and have maintained residence here since that time.

"September 1907-1910: I was employed as cabinet maker and layout man in woodworking mill, and as detailed draftsman and estimator. During approximately two years of this period I was employed by McPhee and McGinnity Lumber Company, Denver's largest lumber dealers at that time.

"1910-1914: I was employed as chief estimator for Mr. Frank Kirchof now President of The American National Bank of Denver, who at that time carried on an extensive general contracting business. My duties consisted of making estimates on specially designed millwork and estimates on all types of buildings for bidding in competition. From the day I commenced work with this firm, I had full charge of all estimating, and contracts for complete buildings were secured and executed on the basis of my calculations.

"1914-1937: In 1914 I left this firm to enter business for myself, and continued in private business as a general contractor until 1937. My first contract was for the construction of a brick residence in the Country Club District in Denver. For some years I designed and built residences and other types of buildings of moderate size and importance, gradually increasing my business and executing con-

tracts for the erection of larger buildings. Some of the contracts I have executed and for which I furnished surety bond include the following:

	Approximate Cost
Boys' and Girls' Dormitory, Julesburg, Colorado	\$80,000.00
Hearst Mercantile Building, Lead, South Dakota	\$150,000.00
Colburn Hotel (10 stories) Denver, Colorado	\$325,000.00
Cosmopolitan Hotel (12 stories) Denver, Colorado	\$1,200,000.00
Norman Apartments (6 stories) Denver, Colorado	\$370,000.00
Continental Oil Office Building (10 stories) Denver, Colorado	\$1,000,000.00

"I have estimated the cost (and in some cases supervised the construction) of the following buildings for other contractors and architects:

Buckingham and Belmont Apartments
 Country Club Apartments
 Oxford Hotel
 Albany Hotel
 Erhard Hotel
 Argonaut Hotel
 Security Building
 Midland Savings Building
 Federal Office Building
 Denver Post Office
 State Office Building
 Blayne Murphy Packing House
 Ford Motor Company Factory
 Children's Hospital
 Presbyterian Hospital
 St. Joseph's Hospital
 Numerous Denver Public Schools
 Fairmont Mausoleum
 Great Western Sugar Company Warehouse,
 All in Denver, Colorado:

Union Pacific Depot, Omaha, Nebraska;

Court House, Prescott, Arizona;

Oklahoma State Capitol (Plain and ornamental plastering);

Storage Warehouse and Apartment House, Billings, Montana;

Eleven Mile Dam (made models and estimated cost);

Other buildings of all types, too numerous to mention.

"I have also interested myself in improving and in teaching methods of estimating costs. In 1916 I opened an evening school to give instruction in plan reading and estimating. During the fall and winter of that year approximately eighty men, mostly building tradesmen, lumber men, contractors' sons, and others interested in the subjects, attended these classes.

"About the time the armistice was signed in the first World War, the United States Bureau of Vocational Training investigated the instruction I was giving in evening classes and, at its request I opened a day school and entered into contracts to instruct disabled soldiers in Estimating and Plan Reading. These men were sent to my school, 'The Western School of Estimating and Plan Reading,' from all parts of the United States and their tuition paid by the Government. These contracts were renewed for several years, and until such time as the number eligible for this training had dwindled to a point where it was uneconomical to continue the instruction.

"In 1922 I published a book entitled 'The Building Labor Calculator,' a system for estimating building costs. I have revised this book from time to time. Several thousand contractors, architects, engineers and others have purchased this book; and it has been sold in all parts of the United States, Canada, South America and in several foreign countries. Over forty universities and colleges have subscribed for this hand book.

"In 1923 I wrote a series of articles for 'The Contractor,' a trade journal published by the 'Association of Canadian Building and Construction Industries.' As a result of these articles and the widespread sale of my book 'The Building Labor Calculator' among Canadian contractors, I was in-

vited to address the Sixth Annual Convention of this Association, and spoke on two programs during the sessions January 23, 24, and 25, 1924, at Windsor, Ontario.

"At the conclusion of this convention a committee previously appointed to investigate methods of estimating building costs reported that the 'Tamblyn System' was the best they had discovered.

"In 1916 the Mountain States Telephone and Telegraph Company was compiling data for a rate hearing and had appointed a committee of four contractors to make a detailed appraisal of all its buildings in Colorado. This committee engaged my services and I made a detailed list of materials and labor for these structures. The pricing was done by the committee.

"Some few years ago I was engaged to make an appraisal of the Daniels and Fisher Stores Building, in Denver, in a case involving inheritance tax. This building was constructed in sections at different periods. The costs were estimated as of the years the various sections were constructed.

"Present Employment:

"In February 1937 I was employed as appraiser in the office of the Assessor of the City and County of Denver. At the present time I hold the position of Chief Appraiser. My duties require me to appraise real estate improvements for tax purposes. The work in this department involves the appraisal of almost every type of building construction. When disputes arise in valuations involving recently built structures, it often becomes necessary for me to check actual construction costs. It is obvious, therefore, that the work in which I am now employed affords me an unusual opportunity to keep posted on current construction costs over a wide field. I have recently prepared a manual of building costs for the use of my department.

"To summarize: My thirty-eight years of experience covers work as apprentice, journeyman, foreman, superintendent, contractor, estimator, appraiser, and instructor in connection with almost all types of building construction.

"Written Statement of Gordon M. Tamblyn.

"On November 25, 1940, I was assigned by the City and County of Denver the task of checking the valuations placed on various structures of Canadian River Gas Company and Colorado Interstate Gas Company by the engineering firm of Ford, Bacon and Davis, Inc., as presented by Mr. George I. Rhodes, in exhibits 68 and 70 in this case. Since that date I have visited the major stations of these companies and made careful inspections of the buildings and structures found at the following locations:

"Regulator Station at Sullivan, Colorado;

"Metering Station at Denver, Colorado;

"Pumping Station at Clayton, New Mexico;

"Pumping Station at Dalhart, Texas; and

"Pumping Station and Gasoline Plant at Bivins, Texas.

It was determined from these inspections that buildings used for the same function were generally of similar construction and type at each location. Therefore, an analysis of the cost of a structure of a certain type, if properly used, will serve as a yardstick for determining the cost of other similar structures at that and other locations. I have prepared cost estimates on selected structures erected at the following locations:

Sullivan, Colorado; Denver, Colorado; Devine, Colorado; and Bivins, Texas.

"In my investigation and compilation of costs I have had access to and have made use of the following information:

"(a) Rhodes' material and labor rates.

"(b) Rhodes' unit costs, including materials and labor.

"(c) Rhodes' reproduction costs shown in Exhibits 68 and 70.

"(d) Inspection of structures as erected on the sites.

"(e) Plans of certain structures.

For the purpose of comparison I have accepted Mr. Rhodes' material costs and labor scales as being correct;

however, my application of these costs and rates to the inventoried quantities in the structures under consideration, varies widely from those of Mr. Rhodes.

"In order to simplify comparison with Mr. Rhodes' costs, I have followed the Rhodes' theory of reproduction and method of presentation. For example, I have assumed that the work is to be done by contractors who are to be allowed liberal funds to cover the cost of doing high-class work and a contingency fund to safeguard against any possibility of loss, plus a ten per cent profit. Wherever, due to lack of plans, or the use of plans which were incomplete, or whenever there was insufficient data for any other reason to determine quantities, I have accepted the Rhodes' inventory. In many instances I have omitted from analysis entire structures because of lack of information on which to base an accurate estimate.

"The estimates of costs and comparisons referred to in the foregoing statement are hereto attached and designated as follows:

"Bivins Station—Texas.

"Devine Pumping Stations—Colorado.

"Denver Metering Station—Colorado.

"Sullivan Regulator Station—Colorado.

GORDON M. TAMBLYN,

Chief Appraiser, Assessors's
Office, City and County of
Denver, Colorado."

Q. Mr. Tamblyn, I notice in the statement on Page 7 of this exhibit you state:

"For the purpose of comparison I have accepted Mr. Rhodes' material costs and labor scales as being correct; however, my application of these costs and rates to the inventoried quantities in the structures under consideration, varies widely from those of Mr. Rhodes.

"In order to simplify comparison with Mr. Rhodes' costs, I have followed the Rhodes' theory of reproduction and method of presentation."

Mr. Tamblyn, that being the case, to what do you attribute the differences shown in your estimates and those of Mr. Rhodes?

A. I stated in this exhibit I have accepted the market price of Mr. Rhodes for materials and the labor scale, or the rate per hour for labor employed in this work. The difference results from the number of hours applied to the various parts of the work and the amount of materials necessary to do that work by Mr. Rhodes, making a difference in the inventory quantities that I get and those of Mr. Rhodes multiplied by the same scale of wage and the rate of materials, or the cost of materials, results in the differences appearing in the exhibit attached.

Q. When you speak of the number of hours, what kind of hours were you—

A. That is one difference in instances where the Rhodes' breakdown on their unit costs show only hand labor. I have used either mechanical or team power.

Q. What about the materials?

A. The materials—speaking from memory, not referring to my itemized breakdown—as a comparison occurs in the amount of lumber required to build forms for the class of walls and foundations found in these structures. I think I can quote from memory that in instances where Mr. Rhodes shows three board feet per square foot, I consider two board feet ample for the work. In other instances where three and a quarter feet per square foot of forms are used, I vary again and use about two-thirds of that material and have always done so in my practice.

There is another item in form work where I think Mr. Rhodes uses 15 pounds of wire per square foot of wall. I consider 3-1/2 pounds ample of wire and nails, I should say—ample to do the work. That is merely an illustration of differences which occur. That is in temporary work which is necessary to pour the concrete walls.

Another instance I remember without referring to my detailed estimates drawn across Mr. Rhodes' breakdown, in the Bivins station I find 13-inch walls, a wainscot of 13-inch walls from the concrete foundation to the bottom of the window sills in which Mr. Rhodes has applied his unit cost of press brick, or face brick to the entire wall.

whereas only two-thirds of the wall is a press brick and the other two-thirds is of common brick. Some difference occurs there.

In one item the putting on of 26-gauge corrugated iron—and I am quoting from memory, and I believe it is correct—Mr. Rhodes uses two hours—just a minute. Make this clear. To lay 100 square feet or apply 100 square feet of corrugated iron, 26 gauge, Mr. Rhodes, uses two mechanics—skilled mechanics—one hour each, two semi-skilled, one hour each, and two helpers one hour each. I differ very widely from any such use of labor doing this kind of work.

Q. These differences seem to prevail to the whole number of items shown on Exhibits 68 and 70, do they not?

A. That is right. I should like to make one more reference and then if I am going to be examined on the details, I would like to go back to my files and get the detailed figures. I didn't know I was to be called this morning. I thought it would be tomorrow or the next day and I wasn't prepared; however, I want to quote one other difference.

In the excavations for the compressor buildings that are large excavations varying from approximately 80 feet to 137—some odd feet long and possibly 8 to 9 feet in depth, large areas in the breakdown of the cost applied to these structures where only common labor is used with a hand shovel and the unit cost is excessive, naturally. No such methods have been used in my time that I know of to do such work.

Q. Mr. Tamblyn, on December 19, 1940, Mr. Rhodes made a statement on the witness-stand in this case that his breakdown on this pipe line was not as accurate as his breakdown on the buildings. Assuming that statement to be correct, what in your opinion would be the minimum excess resulting from his breakdown on the pipeline?

A. Well, if the pipe line is figured less accurately than this, naturally the difference would be greater than the differences shown in my exhibit in the same direction.

(Vol. LXXVII, pp. 11260-11273.)

Table I

Canadian River Ore Company

Exhibit No. 232

DIVINE STATION - TEXAS

Item	Data from Exhibit 68			Cost Estimated by Tammlyn	Difference Between Columns 4 and 5	Percent Overvaluation in Exhibit 68	
	Page	Item	Amount				
	(1)	(2)	(3)	(4)	(5)	(7)	
Boiler House	40	1	331-3	\$11,089	\$9,324	\$1,765	18.9
Pump House	40	2	331-3	6,464	5,240	1,224	23.4
Compressor House	40	3	331-3	16,449	14,321	2,128	14.9
Reg. Washing House	40	4	331-3	2,557	2,301	256	11.1
Regulator House	41	1	331-3	953	695	258	37.1
Valve House	41	2	331-3	623	448	175	39.1
Gasoline Treating House	41	3	331-3	1,731	1,388	403	30.3
Storage Tank House	42	1	331-3	1,019	666	353	51.0
Stabilizer Pump House	42	2	331-3	2,293	1,909	384	15.3
Laboratory Building	42	3	331-3	3,723	2,841	882	30.1
Compressor House	85	1	352-1	57,683	44,586	13,097	29.4
Auxiliary Building	85	2	352-1	11,422	9,170	2,252	21.6
Water Treating House	85	3	352-1	1,445	985	720	77.0
Regulator House	86	1	352-1	1,156	878	278	31.7
Well house No. 1	86	2	352-1	207	138	69	50.0
Well house No. 2	86	3	352-1	987	878	109	12.4
Well house No. 3	86	4	352-1	987	878	109	12.4
Well house No. 4	86	5	352-1	1,851	1,434	417	29.1
Office	147	1	371	2,951	1,737	1,214	69.9
Warehouse and Platform No. 1	147	2	371	9,052	6,879	2,173	31.6
Storehouse No. 2	147	3	371	1,683	987	756	81.5
Garage and Welding Shop No. 4	147	4	371	14,082	12,485	1,657	13.3
Machine Shop	147	5	371	8,001	6,662	1,339	20.1
Dwelling No. 1	148	1	371	5,230	4,272	958	22.4
Dwelling No. 2	148	2	371	4,691	3,804	887	23.3
Dwelling No. 3	148	3	371	4,691	3,804	887	23.3
Dwelling No. 4	148	4	371	4,691	3,804	887	23.3
Fire House	148	5	371	816	411	375	85.0
Dwelling No. 5	149	1	371	4,691	3,804	887	23.3
Dwelling No. 6	149	2	371	4,691	3,804	887	23.3
Dwelling No. 7	149	3	371	5,230	4,272	958	22.4
Dwelling No. 8	149	4	371	4,691	3,804	887	23.3
Dwelling No. 9	149	5	371	4,691	3,804	887	23.3
Dwelling No. 10	149	6	371	4,691	3,804	887	23.3
Dwelling No. 11	150	1	371	5,230	4,272	958	22.4
Dwelling No. 12	150	2	371	4,691	3,804	887	23.3
Dwelling No. 13	150	3	371	4,691	3,804	887	23.3
Dwelling No. 14	150	4	371	4,691	3,804	887	23.3
Dwelling No. 15	150	5	371	5,230	4,272	958	22.4
Hotel No. 16	151	1	371	17,129	15,735	1,394	8.0
Garage No. 17	151	2	371	5,249	5,019	2,230	73.9
Dwelling No. 18	151	3	371	2,840	2,495	353	14.1
Paint House No. 19	151	4	371	730	622	168	27.0
Dwelling No. 20	151	5	371	2,874	2,493	381	15.3
Dwelling No. 21	152	1	371	2,874	2,493	381	15.3
Dwelling No. 22	152	2	371	2,874	2,493	381	15.3
Dwelling No. 23	152	3	371	2,874	2,493	381	15.3
Dwelling No. 24	152	4	371	2,874	2,493	381	15.3
Dwelling No. 25	152	5	371	1,788	815	973	119.4
Garage No. 27	152	6	371	3,604	2,904	700	21.1
Dwelling No. 28	152	7	371	3,604	2,904	700	21.1
Dwelling No. 29	153	1	371	3,604	2,904	700	21.1
Recreation Building No. 30	153	2	371	3,833	2,703	1,130	41.8
Dwelling No. 31	153	3	371	3,604	2,904	700	21.1
Dwelling No. 32	153	4	371	3,604	2,904	700	21.1
Garage No. 33	153	5	371	4,176	1,867	2,309	123.7
Dwelling No. 34	153	6	371	3,792	3,202	590	18.4
Dwelling No. 35	154	1	371	3,792	3,202	590	18.4
Dwelling No. 36	154	2	371	3,792	3,202	590	18.4
Dwelling No. 37	154	3	371	3,792	3,202	590	18.4
Dwelling No. 38	154	4	371	3,792	3,202	590	18.4
Dwelling No. 39	154	5	371	3,792	3,202	590	18.4
Concrete Sidewalks	156	1	371	7,546	2,983	4,563	151.0
Concrete Curb	156	2	371	662	352	309	87.8
4 Main Units (Concrete) Mats	127	2 and 4	354-1	13,931	9,294	4,638	49.9
4 Main Units (Concrete)	127	1 and 3	354-1	13,728	9,566	4,162	43.5
TOTALS				\$355,405	\$278,806	\$76,597	27.5

Table II

Colorado Interstate Gas Company

Exhibit No. 232

Item	Date from Exhibit 70		Cost		Cost Estimated by Tumblyn	Difference Between Columns 4 and 5	Percent Overvaluation in Exhibit 70
	Page	Item	Account	Cost			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
DEVINE PURGING STATION - COLORADO							
Compressor House	64	1	352-1	\$35,092	\$28,713	\$6,379	22.2
Auxiliary Building	64	2	352-1	5,780	7,340	1,560	19.6
Hot Well	64	3	352-1	1,545	747	798	106.8
Regulator House							
Substructure only	64	4	352-1	284	187	97	51.9
Water Softening Building							
Substructure only	65	1	352-1	399	211	188	89.1
Boarding House No. 1	65	2	352-1	6,901	5,555	1,346	21.2
Dwelling No. 2	65	3	352-1	4,211	3,318	893	26.9
Dwelling No. 3	65	4	352-1	4,805	3,611	1,274	35.3
Dwelling No. 4	65	5	352-1	4,211	3,318	893	26.9
Garage No. 5 (Foundation only)	66	1	352-1	1,057	588	669	172.4
Heater Pit	66	3	352-1	276	153	123	80.4
Garage No. 7	66	4	352-1	556	296	260	87.8
Dwelling No. 9	66	5	352-1	4,107	3,009	1,098	34.5
Warehouse and Platform No. 10	66	6	352-1	8,539	6,304	2,155	33.2
Dwelling No. 11	67	1	352-1	3,909	3,009	900	29.9
Dwelling No. 12	67	2	352-1	5,161	4,221	940	22.3
Garage No. 13 (Foundation only)	67	3	352-1	235	62	173	279.0
Chicken House	67	4	352-1	183	93	90	96.8
Chicken House	67	5	352-1	183	93	90	96.8
Chicken House	67	6	352-1	183	93	90	96.8
Chicken House	68	1	352-1	256	132	124	93.9
Chicken House	68	2	352-1	256	132	124	93.9
Concrete Curb	70	2	352-1	111	89	22	21.7
Concrete Curb	70	3	352-1	301	156	145	95.0
Concrete Sidewalk	70	4	352-1	2,161	982	1,179	120.1
Trench for Sewer Pipe	71	2	352-1	920	575	345	60.0
Rail Sinks	133	7	352-3	207	86	121	40.7
Maintenance Garage	139	1	352-3	2,567	826	1,741	210.3
Generator House	139	2	352-3	491	233	258	110.7
2 Main Units	215	1	354-1	6,916	4,794	2,122	44.3
2 Main Units (Mats)	215	2	354-1	5,760	3,737	2,023	54.2
TOTALS				\$110,643	\$82,543	\$28,100	34.0
DENVER METERING STATION - COLORADO							
Macadam Paving	83	1	352-2	\$2,108	\$702	\$1,346	176.6
Concrete Curb	83	2	352-2	2,344	534	1,810	339.0
Concrete Sidewalk	83	3	352-2	409	164	245	149.4
Well Pit	83	9	352-2	290	118	172	145.8
Water Building	85	5	352-2	3,535	2,180	1,355	62.2
Regulator House	85	6	352-2	2,815	1,706	1,107	64.8
Upstream Header House	86	1	352-2	1,308	941	367	99.0
Downstream Header House	86	2	352-2	1,223	806	377	144.6
Garage (2 car frame)	86	3	352-2	706	378	328	86.8
Storeroom and Shop	86	4	352-2	873	260	443	89.8
Dwelling (Frame)	87	1	352-2	5,392	3,821	1,478	38.7
TOTALS				\$20,910	\$11,912	\$8,998	75.5
SULLIVAN REGULATOR STATION - COLORADO							
Regular Pit	115	1	352-2	\$226	\$94	\$132	140.4
Heater Pit	115	2	352-2	197	98	99	101.0
Valve Pit	115	3	352-2	340	149	191	128.2
Cyclone Fence	115	4	352-2	571	26	345	1326.9
Note: This was found to be a 3 wire barbed wire fence							
TOTALS				\$1,134	\$367	\$767	209.0

22. Working Capital of Colorado Interstate.

The witness Rhodes, who participated in the management of the respondent's business for some years after his firm (FB&D) had constructed the line, and whose firm has managed many other natural gas pipe lines, estimated in his Exhibit 70 (Vol. XII, p. 1710) the minimum working capital requirements of Colorado Interstate. He determined that \$120,000 was the minimum requirement for this purpose at this time. The formula adopted by him was stated as follows:

"Working capital for Colorado Interstate's property included in this exhibit has been determined in accordance with a commonly accepted formula as the sum of (a) the average book cost of materials and supplies on hand, (b) one-eighth of the annual cash expenses for operation and maintenance of the property and (c) a cash working fund equivalent to the minimum cash balances carried with local depositories. In the actual operation of Colorado Interstate directed from Colorado Springs only small working cash balances are maintained with local depositories. Cash not needed for current operations is transferred to the New York office in the form of a demand account subject to withdrawal by the Colorado Springs office when needed. The net current position shown by Colorado Interstate's field balance sheet, as reported from Colorado Springs, is thus indicative of the actual working capital required. The average net current position reflected in Colorado Springs balance sheets for the 3-year period 1936 to 1938, inclusive, was greater than the working capital indicated as needed by the formulae. The amount so determined, of \$120,000, is a minimum requirement and less than the working capital actually required by Colorado Interstate." (p. 1738).

Applying this same formula and using "the five year moving average of supplies and expenses, cash in local banks and one-eighth of the annual operating costs exclusive of purchased gas" (Exhibit 170, p. 1), the witness Lusk extended the necessary working capital of Colorado Interstate for the Denver Line as it exists and for a resale line only, as follows:

Year	Denver Line All Gas	Denver Line Resale Gas Only
1940.....	\$127,000	\$129,000
1941.....	134,000	133,000
1942.....	142,000	140,000
1943.....	150,000	147,000
1944.....	151,000	148,000
1945.....	153,000	149,000
1946.....	154,000	150,000
1947.....	155,000	151,000

(Exhibits 170, Statement 2; 172, Statement 2; 285, Statement 4; and 286, Statement 4; Lusk, Vol. XEVIH, p. 6611.)

Cross-examination of the Company's Witness, RHODES.

Q. You don't remember specifically what you told him to do about any of the details, do you?

A. No, I don't recall anything except the broad instructions to determine the working capital on this formula which he well knows and which we have used repeatedly in the past.

Q. What is the average lag in days between the date of delivering gas to the customers and the date the customers are required to pay for such gas?

A. I don't know.

Q. Did you take that into consideration when you attempted to determine what amount of working capital this company would have to have on hand?

A. No.

Q. Doesn't that make some difference?

A. I took all of the factors into consideration when I found the net current assets of the company were in excess of the working capital which was determined by this formula, which as I say, gives the minimum working capital.

Q. Did you know that some of these customers' bills accrued in advance—I will withdraw that question.

Mr. Campbell: I would.

Mr. March: Strike that question, Mr. Reporter.

Q. You don't know anything about the accrual of the bills of these companies?

A. No, I am not interested in that. I don't think that you can make any practical determinations of the amount of working capital by any such estimate of time lag and so forth. The actual experience in the operations of properties shows that you require more capital than indicated by any such study.

Q. Oh, so you are—I thought you weren't relying upon the actual experience of the company.

A. As related to this working capital it is perfectly obvious that I am basing it upon what this company has found by experience as being required to operate this property.

Q. Not the experience which had been secured at the time of the beginning of the operation?

A. There is no direct relation between the working capital that would have been required in 1928 and that which is required now for the properties that now exist.

Q. Do you know when royalty payments are due and payable?

A. I don't know. I would have to look at the leases.

Q. Did you take that into consideration in making provisions for working capital here?

A. No, I merely took into consideration that they are paid and how much is paid.

Q. You don't know anything about that?

A. Well, I wouldn't put it quite that bad, but I don't know when they are due on the calendar.

(Vol. XIV, pp. 1962-1964.)

Q. Do you know, Mr. Rhodes, the amount of time which has elapsed between the accrual of tax expense on the books and when they are actually paid in cash?

A. What taxes are you referring to?

Q. Advalorem and income taxes.

A. What?

Q. Advalorem and income taxes.

A. The only separate item of taxes that appears here are the severance taxes and the like which are paid monthly.

(Vol. XIV, p. 1966.)

Redirect Examination.

By Mr. Campbell:

Q. Mr. Rhodes, did I understand you to say on cross examination that your formula for obtaining working capital in reproduction costs ~~new~~ was that such working capital was equivalent to one-eighth of the ordinary average expense plus average cost of materials on hand plus average cash on hand, is that substantially correct?

A: No. It is the minimum cash balance required rather than average cash.

Q. Now, on cross examination there has been developed that your assistant, Mr. Lusk, in figuring up the expenses of Colorado Interstate Gas Company and Canadian River Gas Company for the last five years, I believe, has eliminated certain extraordinary expenses. Is that correct?

A. Yes, that is so.

Q. I believe on cross examination it was developed that there has been eliminated all of the expense of the Colorado Interstate Gas Company that it has been put to in this rate case, for example. Is that correct?

A. That is correct.

Q. That is also true with respect to the Canadian River Gas Company?

A. Yes.

Q. I believe it was also developed on such cross examination that Mr. Lusk, your assistant, eliminated all lease facility expense?

A. That is right.

Q. Now, under your formula, does not the elimination of such expenses directly reduce the working capital?

A. Well, this leased property expense was in no way related to the Denver line.

Q. I will put it another way:

If these items which have been eliminated were included, would not that increase the working capital requirement?

A. The working capital requirement calculated on this formula, if they were included, would give a higher figure, yes.

Q. Is it not so that the working capital goes up one dollar for every twelve dollars of expense that you have included in the formula?

A. No, every eight dollars.

Q. ~~Every~~ eight dollars?

A. Yes.

Q. I beg your pardon.

Then your working capital has in effect been reduced by reason of these eliminations which have been testified to?

A. Yes, and in effect it excludes those expenses not related to the Denver line.

Q. If, for example, the expenses of this rate case and these attorneys' fees about which so much objection was made here were included, it would be included in the working capital?

A. That is right. It would result in a higher figure.

(Vol. XIV, pp. 1967-1969.)

The Commission offered evidence through its accountant, Kenneth L. Smith, in his Exhibit 145 (Vol. XXXVII, p. 5110), of his estimates as to the necessary working capital required for the line as operated for the sale of all gas as shown for the year 1939, in the sum of \$109,065 (pp. 5112, 5113).

DOCKET 5127

COLORADO INTERSTATE GAS COMPANY
WORKING CAPITAL REQUIREMENTS

BASE ON OPERATIONS DURING THE YEAR 1935

Line No.	Particulars	A A A A A A A A				
		Materials	Transmission	Compressing	Distribution	
			Other	Station		
1	Materials & supplies (average monthly balance during the year 1935)	\$ 57,004.40	\$17,394.73	\$17,394.73	\$ 3,342.05	
	Operating revenue deductions, as adjusted by					
	Basis of Accounts:					
2	Gas purchased (Note 1)	\$405,018.63				
3	Operating expenses	11,172.21				
4	Less gas used in operations (Note 1)	\$411,651.43				
5	Balance					
	1 1/2% of above, representing					
6	55 days' operations (Note 2)	\$1,404.93	\$1,310.34	\$1,310.34	\$1,202.64	\$ 5,228.05
7	Depreciation (Note 3)					
8	Taxes (Note 4)	\$45.19				
9	Nonrecurring expenses					
10	1 1/2% of above, representing	5.65				5.65
11	45 days' operations (Note 2)					
12	Other items (Notes 5 and 6)					
13	Total working capital requirements	\$100,064.94	\$19,304.37	\$19,304.37	\$10,224.14	\$148,897.82

Notes:

(1) No allowance is made for gas purchased because revenue from the sale of that gas is, on the average, received before the gas is paid for by Colorado Interstate Gas Company.

Payments for gas purchased are due Canadian River Gas Company from Colorado Interstate Gas Company monthly, on the twenty-fifth day of the month succeeding the month in which the gas was delivered to Colorado Interstate Gas Company. Accordingly, on the assumption that customers of Colorado Interstate take gas in equal daily quantities, the fifteenth of each month, payments are due Canadian River Gas Company, on the average, forty days after that company makes delivery to Colorado Interstate.

Revenue - See Schedule No. 2 for computation of tax in payment of bills by customers after delivery of gas to them.

Number of days on the average that gas is in the field before payment is due for gas purchased.

(2) An amount equal to 1 1/2% of the company's operating expenses for 1935, or forty-five days' expenses, is, in the Auditor's opinion, a liberal allowance to cover operating expenses which must be paid in the interim between the time of initial rendition of service and the time when revenue is received. The amount of depreciation expense, \$405,018.63, is taken from Page 1 of a report on this company entitled "Income Statement and Supplemental Data".

(3) No allowance is made for depreciation since this expense does not necessitate the disbursement of cash or the use of working capital.

COLORADO INTERSTATE GAS COMPANY
WORKING CAPITAL REQUIREMENTS
BASED ON OPERATIONS DURING THE YEAR 1939

2

Notes (Cont'd):

- (4) No allowance is made for taxes in working capital, as revenues are realized in cash considerably in advance of the payments of taxes, as shown in the following tabulation relating to 1939 taxes:

<u>Date Paid</u>	<u>Amount</u>
March 1939	\$ 15.00
April	2,678.61
May	21.30
July	2,677.48
August	4,495.00
October	2,827.56
November	12,281.28
December	2.00
Subsequent year (1940)	<u>589,949.54</u>
Total taxes for 1939, as adjusted	<u>\$614,947.77</u>

- (5) No allowance is made herein for the average value of gas in the transmission lines, for the reason that the Respondent has capitalized in its plant account the amount of \$7,212.75, representing the value placed upon 81,043.4 MCF used in testing, blowing and/or packing the lines, as follows:

<u>Year</u>	<u>MCF</u>	<u>Rate per MCF</u>	<u>Amount Capitalized</u>	<u>Pressure Base</u>
1928	66,043.4	\$.0865	\$5,712.75	16.4 pounds per square inch, absolute
1929	15,000.0	.10	1,500.00	Not indicated
	<u>81,043.4</u>		<u>\$7,212.75</u>	

According to information received from the Bureau of Engineering the average line pack during the year 1939 was 55,362 MCF, at a pressure base of 16.4 pounds per square inch absolute.

- (6) No allowance is proposed for minimum bank balances for the following reasons:
- A substantial average balance is provided by reason of the lag in payment of gas purchased for resale and taxes after the average date of receipt of revenues.
 - An examination of the company's records indicates that the majority of its customers actually pay several days in advance of the due date, thus providing in fact an additional source of funds for bank balances.
 - A small duplication in the proposed allowances for material and supplies stock and operating expenses exists, to the extent of 12 3/4% of the charges to operating expenses from the material and supplies accounts.

COLORADO INTERSTATE GAS COMPANY
CALCULATION OF WEIGHTED AVERAGE LAG IN DAYS BETWEEN THE DATE OF
DELIVERY OF GAS TO CUSTOMERS AND THE DATE WHEN PAYMENT FOR THAT GAS IS DUE
BASED ON 1939 REVENUE

Line No.	Customer	Last Day of Billing Period	Date Due in Following Month	Lag in Number of Days Between the Time of Delivery of Gas to Customers, as Equated, and Date when Payment for that Gas is Due (4)	Revenue for 1939 (5)	Dollar Value (6)
		(2)	(3)	(4)	(5)	(6)
1	American Crystal Sugar Company	30th	20th	35	\$ 40,432.06	1,415,122
2	Arkansas Valley Natural Gas Company	30th	20th	35	20,380.64	713,322
3	Atchison, Topeka and Santa Fe Railway Company	30th	20th	35	58,891.16	1,991,190
4	Citizens Utilities Company	15th	20th	50	50,470.66	2,923,594
5	City of Colorado Springs	30th	15th	30	212,957.45	6,386,723
6	Colorado Fuel and Iron Corporation	30th	10th	25	946,636.44	24,665,911
7	Colorado Portland Cement Company	30th	20th	35	193,109.10	6,758,818
8	Colorado-Wyoming Gas Company	25th	20th	40	495,450.81	19,818,032
9	Natural Gas Pipe Line Company of America	30th	27th	42	1,376,259.49	57,802,898
10	Public Service Company of Colorado	25th	20th	40	2,124,745.69	84,989,628
11	Pueblo Gas and Fuel Company	25th	20th	40	157,572.31	6,302,882
12	U.S. Department of Interior - Bureau of Mines	30th	20th	35	440.40	15,414
13	Veterans Administration	25th	20th	40	44,875.64	1,955,065
14	Totals				\$5,764,222.47	215,340,749
15	Weighted Average Lag, in Days			37.1		

(a) This lag consists in the number of days between the last day of billing period (Column 2) and date due in following month (Column 3), plus fifteen days as determined on the basis of the assumption stated in Note 1 of Schedule 1.

[Testimony of WITNESS, KENNETH L. SMITH.]

Q. Mr. Smith, in connection with the preparation of that exhibit I will ask you whether you prepared a written statement which sets forth in a summarized form the principal points in that exhibit?

A. Yes, I have.

Q. Will you please read that statement into the record, Mr. Smith?

A. "This study was made for the purpose of determining working capital requirements of Colorado Interstate Gas Company and is based upon operating figures for the year 1939 because they are believed to be indicative of present conditions. It consists of two schedules.

"Schedule No. 1, which develops a working capital requirement of \$109,064.98, allocable to the company's transmission and distribution operations; is with its notes self-explanatory.

"Schedule No. 2, which is a computation of the number of days lag between the time of delivery of gas to customers and the date when payment for that gas is due, helps support the conclusion stated in Schedule No. 1, that revenue from the sale of gas is received before that gas is paid for. It, too, is self-explanatory."

Q. Now, in connection with the preparation of this Exhibit No. 145, Mr. Smith, as I understand it, the basic figures utilized were taken by you from the company's books and records?

A. That is correct. I might add to that and say that the adjustments employed by Mr. Early in his Exhibit No. 140 were, of course, taken into consideration by me in arriving at these results in this exhibit.

Q. And the results arrived at by you in this exhibit reflect in your judgment the correct result—strike out "result"—the correct amount that should be set forth for working capital of Colorado Interstate Gas Company in connection with this investigation?

A. Yes, in my opinion it is a liberal allowance for working capital requirements based upon operations for the year 1939.

Q. I note in the title sheet of this exhibit that it bears the approval of Mr. Harold Tomlin, Examiner in charge of regional office, and W. E. Baker, Chief accountant.

Both of these men are occupying those positions on the staff of the Federal Power Commission?

A. Yes, that is right.

Mr. Lange: That is all.

Cross Examination.

By Mr. Brock:

Q. Mr. Smith, in your statement you refer in the second paragraph to the company's transmission and distribution operation—just a minute. I am confused here.

The copy of the written statement which you read has Canadian River Gas Company up at the top of it. Was that merely to identify the document?

A. Yes, "Canadian River Gas Company" is there and "et al" is also there if you will notice it.

Q. Oh, yes. So this is intended for the Colorado Interstate Gas Company?

A. Yes.

Q. Now, then, what do you mean by the term "Distribution Operation" in connection with the Colorado Interstate Gas Company?

A. Well, I adhere to the same principles that Mr. Early explained in connection with the expenses that he classified as distribution. They relate to the company's measuring system.

Mr. Lange: Right there I wish to ask you this: They are classified in conformity with the Uniform System of Accounts for natural gas companies?

The Witness: Yes.

By Mr. Brock:

Q. In his exhibit and testimony he applied that term in connection with the expenses for the metering stations and you have the same thing there?

A. Yes, the metering stations, and in some of those contributions that were made for property on customers' premises which discussed in detail with him. Inasmuch as I have used his expenses as a basis—any of the explanations he made with respect to distribution expenses follows through in my exhibit.

Q. When you refer to "customers' premises," you have in mind just what he explained in connection with his exhibit?

A. Yes, sir, those are identical matters.

Q. Is this \$109,064.98 an amount you arrived at as proper working capital for the company?

A. Yes. I described it as a liberal allowance for working capital based on the 1939 operations.

Q. Do you think that is more than you would need if you were operating the company?

A. I believe that is all that anyone would need.

Q. How did you arrive at that amount?

A. Well, it is shown on Schedule 1, which is Page 1, that is the summary. You might follow in Column 2 there. I show the amount of \$57,604.40 as being the amount which the company requires for its stock of material and supplies—

Q. May I interrupt you right there?

A. Yes, sir.

Q. You refer to the average monthly balance. What does that mean? Does that take the end of each month or the beginning of each month, or how did you figure that?

A. Well, the company strikes monthly balances at the end of each month and this figure represents a summation of all of the monthly balances at the end of each month in the year 1939 and then it is divided by 12, giving the average monthly balance.

Q. So aside from your average it is a matter of the company's own books?

A. This is based upon the company's book figures, as I recall, without any adjustments. I do not believe—I am sure Mr. Early did not make any adjustments, and in applying this figure I didn't make any adjustments, so it is based exactly upon the company's experience.

Q. This amount that you have classified under Columns 3, 4, and 5, is that correct as between other transmission systems, compressing stations, and distribution?

A. Yes, sir, that total is broken down and those three columns are to identify the components of the total with the function of the company with which those materials and supplies are identifiable.

Q. Are those three items which make up the total under column 2; \$57,604.40 on the books of the company, too, or, did you make the allocation some other way?

A. I am not sure that I understand your question exactly. Of course the items are on the books of the company and they have been described on the books of the company, and information which was available enabled me to put them in those three columns.

Q. Well, I was just wondering whether you found information on the books as to the three exact amounts under Columns 3, 4 and 5, or whether you made some sort of an allocation of your own as between the three branches of the business?

A. Well, I took the stock account, that is, the underlying accounts for the \$57,604.40, and I put them in the three pockets in accordance with according to what I could find out as to the amounts which were represented in the warehouse or stock accounts on the company's books.

If you mean whether or not they are labeled within the three pockets on the company's books, why, that is not exactly the way the figures appear there, but there was information on the company's books which enabled me to put the amount in these three pockets.

Q. In other words \$17,552.10 shown under Column 4 was the proportion of the total amount of \$57,604.40 which you considered to be the materials and supplies properly applicable to the compressing system?

A. Yes, sir.

Q. And, likewise, with those other two items under Columns 3 and 5?

A. Yes, sir.

Q. But those three figures under Columns 3, 4 and 5, as I understand it now, didn't appear on the books of the company and the headings which you have used here?

A. No. For instance, you wouldn't find an account, or a sub-account, for compressing system materials and supplies that had that amount of \$17,552.10 in it. I had to group certain accounts to get that.

Q. What was the purpose of making this separation as between two branches of the business in your effort to work out working capital?

A. Well, I felt as though it gave anyone who might use this schedule a better idea of how this working capital actually applied to the functions of the company. The plant account is naturally broken down by functions and so it follows logically, it seems to me, that the working capital should also be broken down by functions.

Q. Is this \$57,604.40 the same figure used by Mr. Rhodes, or do you recall his testimony on that?

A. I couldn't answer whether or not it is the exact figure, but I do recall, having reviewed Mr. Rhodes' exhibit and his testimony, that there isn't any substantial difference in the results so far as that figure is concerned.

Q. Now, the next item under Column 1, will you explain to us what is involved there?

A. Well, I was in the process of showing how I arrived at the total of \$109,000 and explained the \$57,604.40, and I find that the next item in Column 2 is on Line 5, the amount of \$51,454.93 representing approximately 45 days operating expenses. That is the next item making up my total, and then there is only one other item, a very small one, in the amount of \$5.65 which represents 12-1/2 per cent of the very small item of non-recurring expenses for the year 1939.

Q. Now, will you go back and explain the use or significance of the other figures appearing to the left of Column 2?

A. What line is that?

Q. Line 2.

A. All right, on Line 2 I show the operating expenses for the year 1939 were \$425,018.63.

Q. Now, is that per books or does that involve some adjustment which you or someone else has made?

A. That involves an adjustment. My Note 2 is an explanation of that. I think the last sentence in Note 2 on that page answers your question. It says, "The amount of operating expenses, \$425,018.63, is taken from Schedule B-1—" that should be Statement B-1—" of a report on this company.

Q. Just a moment.

Mr. Lange: Will the Examiner instruct the reporter to make that correction?

The Trial Examiner: Yes, Mr. Reporter, will you make that correction, please? That is on Page 1 of Exhibit No. 145.

By Mr. Brock:

Q. All right, read on.

A. "— of a report on this company entitled 'Income Accounts and Supplemental Data'."

Q. What exhibit is that?

A. That is Exhibit No. 140 which was sponsored by Mr. Early.

Q. And you took his adjusted figure for the purposes of this exhibit of yours?

A. Yes, sir. I might say, referring back to Exhibit No. 140, on the front title page, that you will notice my signature appears under Mr. Early's on that title page, and that indicates that I was supervising Mr. Early's work at the time his Exhibit No. 140 was prepared and completed; and that I, of course, knew all of the adjustments that he made and that I approved of them, as well as the approval that was given by Mr. Tomlin and Mr. Baker.

Q. All right. From that figure showing the operating expenses as adjusted, you subtract \$13,379.21 representing gas used in operations and you get \$411,639.42. What do you do with that in working out the amount for working capital?

A. That amount of \$411,639.42 is divided by 8, or it is multiplied by 12-1/2 per cent, whichever way you want to do it, to arrive at the figure in Column 2, Line 5, which is \$51,454.93.

In other words, in Column 2, there is a sum of \$51,454.93 that represents approximately 45 days operations rather than the full year.

Q. You took the eight months?

A. No, sir, 45 days. I took one-eighth, or approximately 45 days. I am saying in effect that what the company needs in its working capital requirements with respect to its operating expenses is enough money to provide for a 45-day operation which is a liberal allowance, before that company receives its revenue that it earns.

Q. That is, 12-1/2 per cent?

A. Yes, sir.

Q. Of the operating expenses?

A. 12-1/2 per cent, or one-eighth of the operating expenses for the entire year, or that means in effect approximately 45 days operation.

Q. What is the significance of the 45 days which you used? Why did you use 45 days rather than some other number of days?

A. Well, we can look at Note 2 again, the first sentence, and you will find it sums up the situation. I might read that. It states: "An amount equal to 12-1/2 per cent of the company's operating expenses for 1939, or 45 days expenses of operation, is, in the Examiner's opinion, a liberal allowance to cover operating expenses which must be paid in the interim between the time of initial rendition of service and the time when revenue is received."

Now, I think to clarify that note it might be well to go back to Note 1. The import of Note No. 1 is that—

Mr. Lange: It might be well, Mr. Smith, to explain the allowance, or, rather, the absence of any allowance in working capital for any gas purchase amounts—

The Witness: That is clarified in Note 1 and too Note 1 covers that point as well as showing why 45 days allowance for operating expenses is a liberal allowance.

Mr. Brock: Mr. Examiner, if that is a convenient place to take the afternoon recess, I will read this note.

The Trial Examiner: Very well, we will stand in recess for five minutes.

(Whereupon, a short recess was taken, after which proceedings were resumed as follows:)

The Trial Examiner: The hearing will be in order.

By Mr. Brock:

Q. Now, Mr. Smith, in your Note 1 on Page 1 of your exhibit you indulge in the assumption that customers of Colorado Interstate Gas Company take gas in equal daily quantities. What is the significance of that and what do you mean by that?

A. Well, that means as to any particular month's de-

livery the assumption is made that the average day for the month would be one-thirtieth of the total for the month. That's in effect what it means, I believe. That is, the average daily consumption by the customers would be equal to one-thirtieth of the total consumption for the month. In other words, it is an assumption that is necessary in order to arrive at an equated delivery for the month's supply of gas sold.

Now, that doesn't mean any particular month, that means an average month for the year.

Q. What difference does it make whether a particular customer takes all of its gas in the first half of the month or whether it is spread out throughout the month?

A. Well, I think maybe a better way to understand that is to turn over to Page 4 of the Exhibit.

Q. All right.

A. Because on that Page 4 which is designated Schedule 2, I have made a calculation of weighted average lag in days between the date of delivery of gas to customers and the date when payment for that gas is due, based on 1939 revenues.

Now, my columns in that schedule are headed up so as to show in Column No. 1 the customer, Column No. 2 the last day of the billing period and in Column 3 the date due in the following month. In other words, that is the date which the customer's bill is due and should be paid to Colorado Interstate, and then in Column 4 it is headed "Lag in number of days between the time of delivery of gas to customers, as equated, and date when payment for that gas is due." That column has a foot-note which is at the bottom of the page which reads as follows: "This lag consists in the number of days between the last day of billing period (Column 2) and date due in following month (Column 3), plus fifteen days as determined on the basis of the assumption stated in Note 1 of Schedule 1," and I might take one of those figures in Column 4, for instance, Line 1, and show just how that is arrived at.

From the last day of the billing period, which is the 30th of the month, Column 2, to date when the payment is due in the following month Column 3, which is the 20th of the following month, which, of course, is 20 days—

Q. Ten days?

A. Twenty days. And then we add to that, 15 days which is the difference between the last day of the billing period and the middle of the billing period—the middle of the month. Fifteen days added to the twenty days gives you 35 days, shown in Column 4. Now, it is necessary at that point to have some knowledge of the average equated date when the gas is actually delivered to the customers. In other words, going back to Column 2, here is the 30th day of the month and that is the last day of the billing period. The customer has been taking gas for thirty days. He didn't take all of that gas on the first day or the last day, but he took it in a series of days.

Now, there is some day in there that is the average date on which he took that gas. The most logical assumption I could make was that his average date of take was the middle of the month—the middle of the period—but to arrive at that result you have to assume that on the average for the period of the year, the customer would take his gas in equal daily amounts. Of course, it would average out into the total amount.

Q. This equated business that you refer to there under Column 4, that is the fifteen days in each case added?

A. Yes, it would be fifteen days from the last day of the billing period because every customer is billed once a month and it would, therefore, be fifteen days from the end of the billing period—fifteen days prior to the last day of the billing period.

Q. In other words, you have added fifteen days to the several dates set out under Column 3?

A. Well, I have added fifteen days to the difference between—I have added fifteen days to the number of days from the date in Column 2 to the date in Column 3.

Q. Oh, yes. That's what I intended to find out. That is true in each case here?

A. Yes, sir, that is correct.

Q. That is what you mean by equated, is adding fifteen days to the number of days between the end of the billing period and the date when the bill is due?

A. Yes. In other words, the equated date is the middle of the billing period.

Q. Is that your own formula, or—or did you get it from some other source?

A. Well, I believe that this method has been used by a good many regulatory bodies in this sort of study.

Q. Have you ever used it before?

A. I have never used this method before myself.

Q. Do you know of any cases? Could you cite us any cases where that formula has been adopted or approved by regulatory authority?

A. Not right at the moment, but I do know that I am familiar, in having studied this subject, that such a method or one that yields the same result has been used.

Q. Under Column 5 you set out the revenue, I assume it is, from the several customers of the Colorado Interstate Gas Company listed under Column 1?

A. Yes, that is the annual revenue for 1939. I think that that figure also will tie in with Mr. Early's exhibit.

Q. In other words, there is included in the figures under Column 5 some adjustments in connection with the revenue?

A. I don't believe Mr. Early had any adjustments. He applied some reclassification entries, but I don't believe he had any adjustments.

Q. And under Column 6, how do you arrive at the dollar days?

A. The dollar days in Column 6 is the result of multiplying Column 4 by Column 5; that is, with respect to each individual item, of course, in Lines 1 to 13, inclusive.

Q. How did you determine under Line 15 the weighted average lag? In other words, how did you arrive at the figure 37 under Column 4?

A. Well, it is arrived at—not by the use of the figures in Column 4, but by striking the average, using the figures, the totals in Columns 5 and 6 on Line 14. In other words, the average lag for all of the revenue is related to the total dollar day, an average of 37 days.

Q. In other words, you took the several days listed under Column 4, weighted it by the dollars shown in Column 5 and 6?

A. Yes, that is the purpose. Column 6 actually weights the revenue. The dollars of revenue and the days, involved in the lag, that waiting is automatic in the product arrived at in Column 6.

Q. Coming back to Page 1 for a moment, under Note 2 you say it is the Examiner's opinion that an amount equal to 12-1/2 per cent. of the company's operating expenses for 1939 are 45 days' expenses of operation, is a liberal allowance.

A. Are you ready for me to answer?

Q. No, I was going to ask you what you based that on.

A. Well, if I had wanted to be unliberal I could have said 37 days and by using 45 which is 8 days more than the weighted average lag in revenues, giving the company the benefit, it seemed to me to be a reasonable and liberal margin.

Q. In other words, the allowance of the additional 8 days over and above the weighted average lag in days as shown under Column 4, Page 4, is the liberality to which you refer?

A. Yes, I believe that is correct. As I said, if I had not wanted to have been—if liberal I could have been I wanted to be very meticulous about it, I could say that the bare statistics here of 37 days ought to do it. Now, I have not only given you eight days margin but I have not taken into consideration that those bills were for expenses which are often times not paid on the date which they accrue. You might pay them within ten days to get the discount. On the other hand, something might be actually accrued on the 10th of the month and be billed at the end of the month and I have tried to consider all those possibilities and I don't see any possible way in which the company is getting the worst end of this computation. It seems to me that there is always a possibility of delay in payment rather than working to the reverse.

Q. If you had used 37 days instead of 45 days, you wouldn't have considered that there was any element of liberality in the calculation, would you?

A. No, I wouldn't have been liberal if I had said 37 instead of 45.

Q. So the basis for your statement of your own liberality is due to the fact that you used 45 days instead of 37 days?

A. Essentially I think that is true. As I said just a minute ago, even those expenses incurred in that 37-day period might be, a great many of them, not paid until after

the end of the period, but I have gone on the assumption that expenses had to be paid cash on the line, right now, and still allowed eight days over and above that; whereas, in actual practice we know that most bills are delayed a few days before they are, actually paid.

Q. Your opinion merely assumes the propriety of the formula which you employ on Page 4?

A. Well, I don't think there is any assumption as to the propriety of that formula. I think that formula is very proper.

Q. Well, my question was, wasn't your opinion as expressed in Note 2 on Page 1 based upon the assumption of the propriety of the formula set forth on Page 4?

A. Well, I'll answer that yes if it doesn't imply that there is any impropriety in the formula on Page 4.

Q. In other words, then, in testing your opinion as stated in Note 2, Page 1, we turn over to Page 4 and find what it is based on?

A. My opinion that 45 days allowance for operating expenses is liberal that opinion is based upon the fact that it exceeds by eight days the 37-day lag shown on Page 4.

Q. And that is the only basis of your statement with respect to your opinion in that regard; that is, eight days or more than 37?

A. Well, I might add this, if it is not getting off the subject, that in having made some investigation as to what regulatory bodies have done, I believe that 45 days is used very frequently and it has been considered that 45 days is a proper allowance under circumstances where the facts don't yield a contradictory result. In other words, I might put it this way: In reviewing what regulatory bodies have done, I believe I have seen that 45 days have been allowed more than any other one figure.

Q. Now, this opinion of yours is not arrived at as the result of any actual experience on your part in acting as treasurer for a company of this kind and taking care of the operating expenses and taxes and other expenses as they come along from time to time?

A. No, sir, it is arrived at by the experience of Colorado Interstate Gas Company. If you had a different set of facts you could come to an entirely different result and the date on which customers' bills are due, for example, is

a determining factor and no two companies would necessarily be the same. You have to confine your study basically to the company's practice and, of course, essentially that is what I have done.

Q. Did you consult any financial officer of the Colorado Interstate Gas Company as to his working capital requirements?

A. No, sir, I didn't do that, but I did have the benefit of checking this result against Mr. Rhodes' estimate as compared with my \$109,000 and he arrived at \$120,000 so we were \$11,000 apart, or less than ten per cent.

Mr. Campbell: Mr. Examiner, may I ask Mr. Smith a question?

The Trial Examiner: Yes.

By Mr. Campbell:

Q. You just stated, Mr. Smith, that this figure of yours was the experience of Colorado Interstate Gas Company and yet I see that you disallowed all minimum bank balances. Now, didn't Colorado Interstate Gas Company during this time have in existence minimum bank balances?

A. I think your assumption is incorrect that I disallowed the minimum bank balances.

Q. Then I misunderstood your statement. You say on Page 2: "No allowance is proposed for minimum bank balances for the following reasons," and then you give three reasons.

A. Yes, sir. I point out the conditions and experience of this company which gives them minimum bank balances and I don't propose a minimum bank balance in addition to the \$109,064.98 that I have allowed, but I do show that the company's experience and the company's operation does yield for it and actually gives them a substantial minimum bank balance.

Q. Well, did you make a study of their actual bank balances over the year to see what that might average?

A. I did not because I considered it immaterial and irrelevant to this study.

Q. Yes. Well, now, do you believe that in the actual management of the company it is possible for them to so operate it that they can draw down their bank balances

to say \$109,000 and hit your theoretical minimum or maximum, whichever you want to call it?

A. Well, this statement doesn't imply that. With the conditions stated there are minimum bank balances that are provided by reason of the facts clearly set forth in my foot-note here. The minimum bank balances are actually provided over and above this \$109,000, if you want to put it that way.

Q. I don't think you have answered my question, Mr. Smith. I will ask you this. Perhaps you didn't understand the purport of my question: Can you yourself, receiving your income and paying your household expenses, can you yourself so conduct your affairs so that you can draw your bank account down to zero each month and put everything else to work for you either in the form of savings account, or invested funds?

A. Will you read the question again?

(The question referred to was read by the reporter, as set forth above.)

The Witness: Well, I have never tried to do that.

By Mr. Campbell:

Q. Do you think that a company actually faced with the necessities of business can do the same thing?

A. Yes, if they have a bank balance provided as I have shown in my Foot-note 4; that is, provided they can pay their expenses on this—working on the basis of this working capital allowance that I have recommended, they are going to have money in the bank all the time.

Q. And never have more than \$109,000?

A. No, my statement doesn't mean that. It means that they will have quite a substantial fund. Let's look at Foot-note 4 and analyze that a little bit and show you just what I mean.

Q. You haven't answered my question. I don't care to have a lecture, I just want to have you answer my question.

A. Maybe I had better have the question I haven't answered.

The Trial Examiner: Well, you go ahead, Mr. Smith. What foot-note did you have reference to?

The Witness: Well, I think Foot-note 4.

The Trial Examiner: Page 2?

The Witness: Page 2, will develop the most basic reason why an additional allowance for minimum bank balances over and above the \$109,000 is not necessary and that is due to the lag in the payment of taxes. You will find that the company in the year 1939 charged to expense on its books a total of \$614,947.77 for taxes. Those taxes were charged against its revenue and, of course, at the time when the customers paid their bills they paid revenue to cover all of the charges against that revenue plus a profit to the company. Included in the charges against that revenue were the taxes. Now, the taxes that were accrued during 1939 amounting to \$614,947.77 were almost all of them paid in 1940, or the next to the last line of that tabulation shows that \$589,949.54 were paid in 1940. Now, approximately \$25,000 were paid in 1939 and even those that were paid in 1939 were paid in the latter part of the year in 1939. Now, that experience shows that the company had received that revenue starting, we will say, in the latter part of February, to cover these taxes, and yet wasn't called upon to pay any substantial amount of those taxes until very late in 1939 and most of it in 1940, and, of course, a great part of that which was paid in 1940 represents the Federal income taxes which were paid in four quarterly instalments in 1940—March 15th, June 15th, September 15th and December 15th; so if I were to compute the lag in the payment of taxes and throw that in as a credit, why, it would reduce that \$109,000 very materially and then of course, I would be called upon to put some sort of a judgment figure in for minimum bank balances but there again I have given the company the benefit of the doubt and feel that I have been very liberal in saying in effect that I won't throw in this credit for the deferment of tax payment, but, rather, will substitute that and let you get out of it whatever you may for minimum bank balances, and it should yield substantial minimum bank balances. It might even yield a figure as great as \$109,000 in addition to the \$109,000 which has been recommended for allowance. That's what I mean by saying that my method does yield a substantial allowance for minimum bank balances.

By Mr. Brock:

Q. Well, now, Mr. Smith, referring again to your Note 4 on Page 2 and taking the year 1939 as you have set up the taxes and compared them with the small amounts from March 1939 up until the end of the year, then showing a very large take in 1940, that doesn't present a very good picture on the basis of the actual performance of the company, does it? In other words, let me ask you another question:

Taking it year by year, the real situation is about as follows: A fourth of the income taxes are paid March 15th, a fourth of the income tax is paid June 15th and a fourth of it is paid September 15th, and a fourth is paid December 15th and half of the advalorem taxes paid by the end of February and the other half paid by the end of July. Now, that is what happens year in and year out and doesn't that present a very different picture from the figures which you have set up here in your Note 4? They are paying taxes right along. If you take the full year and then figure the actual dates when these several amounts of taxes are paid, isn't that so?

A. No, sir, that is not correct, because the first year they operated they didn't pay those taxes. They start paying them the second year and every year after that there is a lag of a whole year.

Q. But during the year—during each year these payments that I have mentioned have to be paid, do they not, for some period of time?

A. After the first year of operation you are always paying a year's taxes within a year but you are paying the preceding year's taxes essentially.

Q. But they are being paid every year except the first year, as you say?

A. That's right.

Q. Regardless of the fact that none are paid the first year, the cash has to be available each subsequent year on the several dates when the instalments come due, isn't that right? The cash has to be there?

A. That is correct and the cash that I have applied to that payment of taxes is related to revenues which are collected a year early.

Q. Does it make any difference as to the amount of cash which the company has to have available for the year 1939 to pay the several instalments of taxes which I have mentioned that it didn't pay any taxes in 1928?

A. I think it does.

Q. You think it does?

A. Yes, sir, because the company has always had the benefit of that year of lag and they still have it and they will always have it as long as there is a year's lag.

Q. You are considering this matter of benefit, not the matter of cash on the barrelhead when it is needed?

A. Well, you have got to consider my statement as a whole. It is predicated on a relationship of expenses to the collection of revenues and if you overlook that point and try to make some other point without coordinating it with that, why, then you are not considering all of the facts that I have presented here.

Q. Let me ask you another question: Does it make any difference when you are considering the amount of cash which the company must have on hand to meet these several tax payments for the year 1939, whether those taxes are being paid on the basis of something which has accrued that year rather than on the basis of something which has accrued in some prior year?

A. Yes, sir, from the viewpoint that I approach this it makes all the difference in the world. Now, if those taxes for 1939 had to be paid in 1939 why, I would have to have made a different computation.

(Vol. XXXVII, pp. 5110-5136.)

[Testimony of WILLIAM LUSK.]

Q. Mr. Lusk, this exhibit represents an estimate, doesn't it? The final figure of \$190,000 is an estimate that doesn't appear on the company's books?

A. No, sir, it does not. That is a judgment figure taking the \$200,674 for the three-year period and \$195,000 for the five-year period, and it is rounded down to \$190,000.

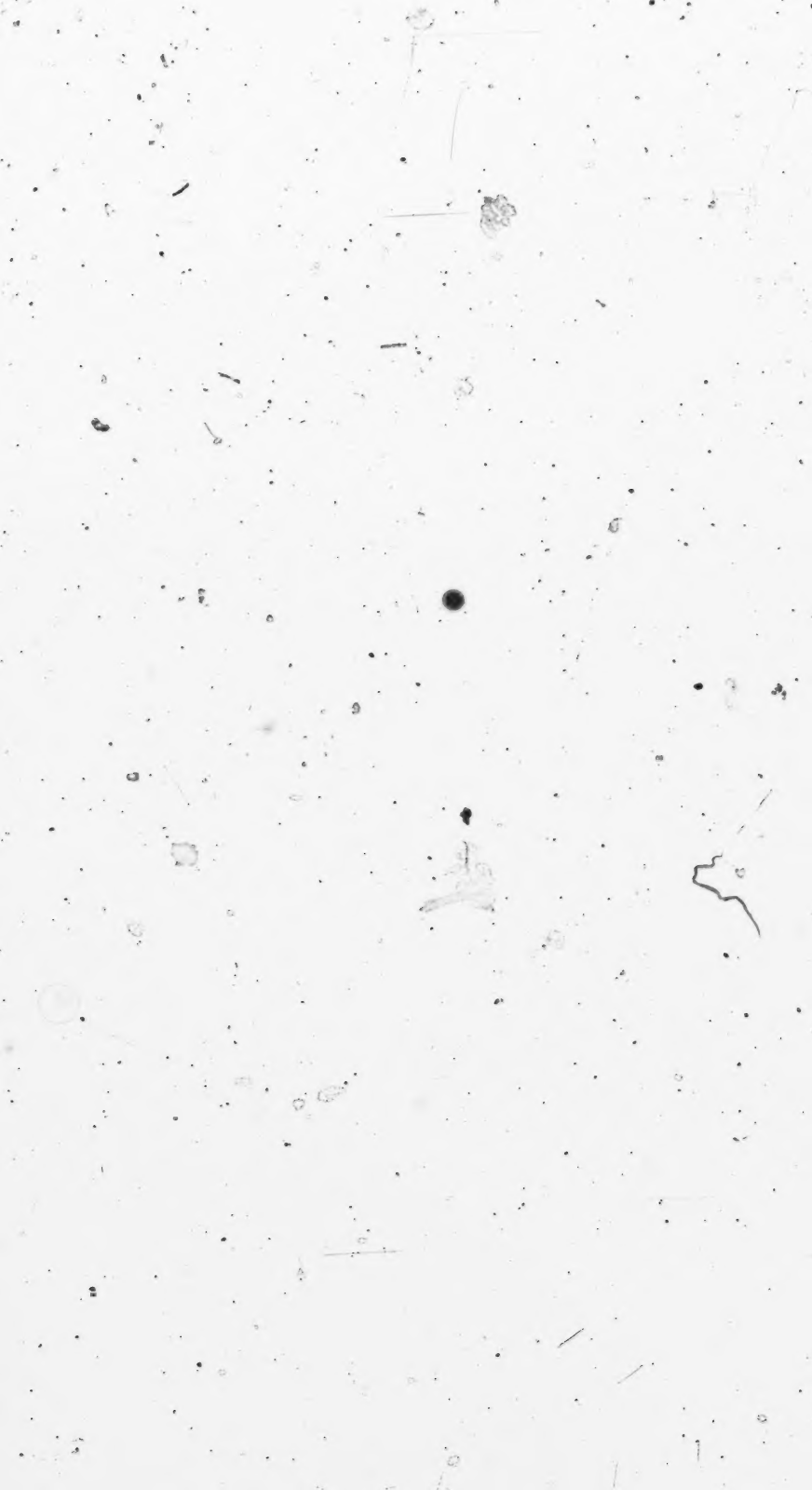
(Vol. LXV, p. 9269.)

23. Annual Operating Expenses and Taxes, Exclusive of Cost of Gas, Income and Capital Stock Taxes, of Colorado Interstate for the Denver Line, 1928 to 1939, Inclusive, and as Estimated, 1940 to 1947, Inclusive.

Respondent's witness Lusk in his Exhibit 76 (Vol. XVII, p. 2402) shows the adjusted operating and maintenance expenses and operating taxes of this company for each of the years 1928 to 1939 inclusive. He does not include as expense items those items originally charged as expense but which he has heretofore in his Exhibit 67, abstracted hereinabove, transferred to the capital account. Evidence as to cost of gas, depreciation, amortization, income taxes and capital stock taxes is abstracted hereinafter under titles referring to those subjects.

The respondent's witness Rhodes, who designed and participated for a time in the operation of the line, estimated the annual operating expenses and taxes for each of the years 1940 to 1947 inclusive in his Exhibit 135 (Vol. XXXI, p. 4307). He likewise excluded, at this point, cost of gas, depreciation, amortization, income and capital stock taxes; and the evidence as to the future requirements on account of these matters is hereafter abstracted under titles referring to those subjects.

The expenses on account of operation, maintenance and operating taxes, past and future, developed in these exhibits are best summarized on the attached statement taken from Exhibit 135 entitled "Operating Expenses and Taxes of Colorado Interstate Gas Company, 1928 to 1947, Inclusive."



Operating Expenses and Taxes of Colorado Interstate
Gas Company, 1928 to 1947, Inclusive.

Calendar Year	Compressor Stations		Transmission Lines	Meters and Metering	Telephone System	General Expenses Etcetera	Operating Taxes	Rate Case Expense	Unallocated Profit and Loss Items	Total Annual Expenses
	1939 Capacity	Added Capacity								
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Ex. 76 1928	.....	.....	\$ 59,042	\$ 10,046	\$ 3,257	\$ 60,240	\$ 15,704	.....	\$ 45	\$148,334
Ex. 76 1929	\$ 1,298	.....	91,240	31,292	10,835	89,382	76,228	.....	6,827	293,448
Ex. 76 1930	39,073	.....	76,603	40,133	9,727	101,482	163,883	.....	5,632	425,269
Ex. 76 1931	90,827	.....	71,172	38,124	11,204	113,898	147,232	.....	28	472,485
Ex. 76 1932	80,733	.....	79,199	39,280	9,787	122,315	153,934	.....	1,284	486,532
Ex. 76 1933	74,566	.....	79,566	41,040	10,492	96,634	154,697	.....	106	456,889
Ex. 76 1934	77,171	.....	97,286	40,829	8,954	86,584	144,282	.....	329	455,435
Ex. 76 1935	87,957	.....	82,728	42,553	12,079	67,172	150,469	.....	64	443,022
Ex. 76 1936	113,812	.....	87,884	49,036	10,536	76,619	155,864	.....	1,932	495,683
Ex. 76 1937	126,172	.....	86,080	47,814	18,467	68,739	185,847	.....	.....	533,119
Ex. 76 1938	121,249	.....	100,057	50,734	11,487	66,687	182,731	.....	.....	532,945
Ex. 76 1939	115,646	.....	109,138	49,236	10,225	88,623	192,101	43,000	.....	607,969
Ex. 135 1940	129,200	.....	100,600	51,600	12,500	92,900	191,300	43,000	.....	621,100
Ex. 135 1941	135,100	7,200	103,100	53,200	12,700	94,300	194,900	43,000	.....	643,500
Ex. 135 1942	137,800	7,200	105,600	54,800	12,900	95,800	198,500	43,000	.....	655,600
Ex. 135 1943	140,100	25,800	108,100	56,400	13,100	97,300	205,100	43,000	.....	688,900
Ex. 135 1944	142,900	25,800	110,600	58,000	13,300	98,700	208,700	.....	.....	658,000
Ex. 135 1945	145,800	25,800	113,000	59,600	13,500	100,200	212,400	.....	.....	670,300
Ex. 135 1946	147,700	25,800	115,500	61,200	13,700	101,700	217,400	.....	.....	683,000
Ex. 135 1947	149,600	25,800	118,000	62,800	13,900	103,100	221,100	.....	.....	694,300

Rhodes took past expenses, as shown by Exhibit 76, grouped them and analyzed them for the purpose of extending them through 1947, and the extensions he made in Exhibit 135 reflected the trends in costs actually experienced by the company (Vol. XXXI, pp. 4307, 4308). The added costs involved in the added peak load compressor station facilities required after 1939 were estimated with due regard to the character of the operation. The compressor station maintenance expense and other expenses charged to compressor stations were separately studied. The operating expense and maintenance expense of compressor stations increases rapidly with any increase in volume of gas handled. The normal rate of such increase as experienced by the company in the past was determined and then projected into the future for the estimated future volumes. Since operations from 1932 to 1935 were sub-normal on account of the slow development of the load, this fact was taken into account. In 1931, however, stations had been fully manned in anticipation of heavy growth, which did not materialize. Accordingly the trend in cost from 1931 to the average experienced in 1937 to 1939 inclusive was extended into the future as their normal operating cost (p. 4308). Additional facilities acquired subsequent to 1939 are peak load or booster facilities normally operated only during the winter and for which only skeleton crews were required. The estimated annual cost of these stations at a mere fraction of the average cost per horse-power of the existing stations, give due regard to such method of operation.

The normal trends in other expenses were determined from their average costs in 1935 to 1939 inclusive, as compared with their average costs in 1930 to 1934 inclusive. These trends show a relatively nominal increase in cost over the period which was extended into the future as the normal for those years. Prescribed future increases in social security taxes were separately allowed for. In 1939 the company instituted the plan of employees' welfare, involving the payment of premiums on retirement annuity policies. These were separately allowed for in the projected future expenses. Regulatory Commission expenses have been eliminated and the estimated cost of the pres-

ent rate case in the amount of \$215,000 has been spread uniformly over the five years beginning with 1939.

The statement attached shows the annual expenses as actually incurred through 1939 and as projected through 1947. They are grouped in these several classes of expenses which were separately studied. The added expense of additional compressor station facilities are separately shown (p. 4309).

In further explanation of his method of estimating future expenses, Rhodes stated that the general method was this: Let us suppose that there is some item of expense that ran for the first five years of this decade at an average of \$10,000 a year and in the last five years of this decade at \$12,000 a year. This means that in the five years; that is, from the middle of the first five-year period to the middle of the second five-year period, there has been a \$2,000 increase, or a \$400 per annum increase. In trending into the future, he would take as normal \$400 per year, taking the \$12,000 as of the middle of the last five-year period. That is the general method followed except as to compressor station expense, which is a little more complicated (pp. 4310, 4311).

As to compressor stations, Column 1 on the statement shows the operating and maintenance costs as they existed in 1939. The cost of operating these stations are conveniently divided into two classes: first, the maintenance of the station proper, which varies with the amount of operation, and the remainder of the costs, which are not much affected by the operation of the station. As to the first, he made a study as to the relation between the annual expenditures for maintenance and the relation for the average volume of gas handled, with three systems running, and found that up to about an average load of 25% capacity there was practically no maintenance of the engines, but that beginning with loads larger than that, maintenance increased very rapidly. He projected that maintenance ahead to higher loads, such as would be had in the future, and assigned to each future year a normal maintenance corresponding to its load ratio, the ratio of its load to the capacity of the system with these stations.

running. In handling other station expenses from 1932 to 1935, the stations were running only with skeleton crews, at least a part of them, so he made his trend there from 1931 to the past three years (p. 4312), both of which periods the stations were fully manned for regular operation, and he projected that trend at so many dollars per year into the future.

In addition to the base load equipment, there is the equipment already being installed in Canyon and Devine and the booster station to be constructed near Colorado Springs. The operation and maintenance cost of these stations have been priced at something less than half the average cost of running the stations in regular operation, because just one man at a time throughout the greater part of the year would be required (p. 4313).

In column 1 the increase in gas handled accounts for most of the difference between \$115,000 in 1939 to roughly \$149,000 in 1947. It is true that more maintenance is required as the compressors get older, but he did not allow for that condition. In general, each group of expenses was plotted in a rough manner to indicate the trend (p. 4314).

In 1941 and 1942 there will be the 1200-horse-power extension to the Devine station and the 600 horse-power unit in Canyon station, for which the operating and maintenance cost is estimated at \$7,200 a year, or \$4 a horse-power.

Beginning in 1943 there is a 600 horse-power addition in the Canyon station, and an 1800 horse-power booster station near Colorado Springs, which add \$16,800, making a total of \$25,800 for the additional 4200 horse-power, which is about \$6 per horse-power per year.

The figures in column 1 running around \$140,000 to \$150,000 are for a total of 8,000 horse-power, approaching \$20 per horse-power a year (p. 4315).

There is a difference in the cost where an additional unit is added, as distinguished from an entire new station.

In the existing stations there is already a full complement of men, and additional men will be required for only a part of the year to take care of the compressors that

are operated only during the winter; but when a new station is built there is nothing to start with, and a skeleton crew has to be provided, for which he made an allowance of \$9,000 a year. It takes five men on the payroll to maintain one man continuously on duty, and their wages with incidental expenses would aggregate just about \$9,000.

In the transmission lines, the trend was found by taking the years 1935 to 1939 and determining the average cost, which was approximately \$93,000 a year, as the late measure of costs, and the average from 1930 to 1934 as the early measure of cost, which was about \$81,000 a year. The normal cost for future years, taken as an increase above the 1937 cost at an average trend, showed that the average increase per year was approximately \$2480. He started from the five year average as of 1937, and increased at that rate for the future years after 1937 (p. 4316).

For the year 1939 the amount shown is \$109,138, and starting with 1940 the estimate was less, until he reached the year 1944. The significance of that is, that there have been in the last two years some increases in wages, which would account for part of it, but the expenses vary from year to year, depending upon storms and the like.

As to meters and metering, he combined the cost of operating meters in the field and the meter department in the office, and the trend was determined by comparing 1935 to 1939 inclusive, with 1930 to 1934 inclusive, which trend was found to be \$1600 a year. In this case there had been a rather steady expenditure from 1936 to 1939 inclusive, so, instead of trending from 1937 he trended at that rate from 1938 and 1939, taking in round figures, \$50,000 a year; that is, he started with \$50,000 a year as normal for 1939, and added \$1600 to each succeeding year as representing the normal trend (p. 4317).

The art of measuring gas has been gradually changing, involving the application of more factors, and it is the duty of the department to analyze and study changes in growth, all of which becomes more and more complicated as the property becomes larger and there is a tendency to increase wages.

As to the telephone system, 1937 showed an abnormally large expense, and if he had followed the method of trending described for the transmission system, it would have led to an increased cost far above normal, so they eliminated 1937 and determined the trend from 1935 to 1939 on the one hand, and 1930 to 1934 on the other hand, finding an increase in cost of \$210 per year (p. 4318).

The general expenses were trended as a whole. There was first taken out the management fees in the early days and the annuity payments which began in 1939. There were two distinctly abnormal years, 1932 very high, and 1935 very low, which he could not explain.

After these eliminations, the trends between the first five years and the second five years of the decade was found to be \$1470 a year (p. 4319).

For the future, the \$21,870 per year, employees' welfare payments made in 1939, were deemed to continue at the same amount year by year, although they may be increased, and they were added separately to the trended amounts.

The management fees remain in column 6, but were taken out for trending purposes, and also the expenses in 1939 for regulatory Commission purposes. These expenses had to do with the pending case (p. 4320).

As to operating expenses, there was first taken out the social security taxes, leaving ad valorem and miscellaneous taxes. These taxes seemed to group themselves into a six year period for the first part of the decade, and a four year period for the latter part. They were so averaged for the purpose of determining the trend. The trend upward was trended to average \$3646 per year.

The social security taxes were restored starting with 1939 and keeping at that amount, but adjusting it upwards at the higher rates provided.

As to the rate case expense, it was spread over the five years from 1939. The amount was determined in discussing the matter among ourselves, and knowing that up to the latter part of (p. 4321) this year something over \$100,000 had been spent. He merely estimated that \$215,-

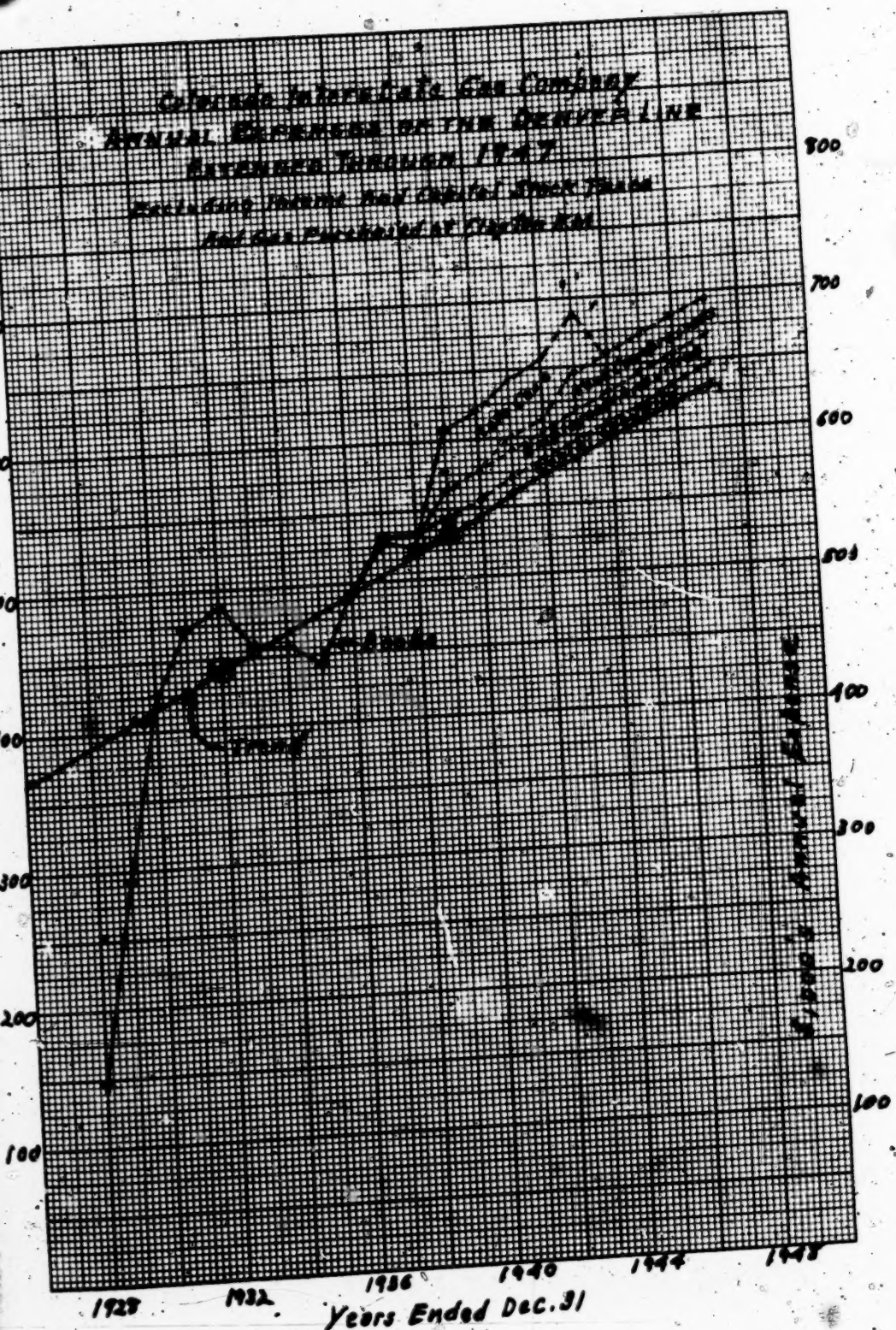
000 might cover the cost of the proceeding. In estimating this amount he had in mind three or four other rate cases in which he had participated.

"Q. And after studying the past operating expenses and the future anticipated business of the company, is it your judgment that that is a fair estimate of the change in operating expenses that might be anticipated on the Colorado Interstate line as a whole during those years?

"A. It is." (Vol. XXXI, p. 4322.)

In his Exhibit 135-A, Rhodes presented a graph showing the trending line of the expenses through the year 1940 (Vol. XXXII, p. 4502).

Colorado Interstate Gas Company
ANNUAL EXPENSES OF THE DENVER LINE
EXTENDED THROUGH 1947
INCLUDING INTEREST AND CAPITAL STOCK TAXES
AND GAS PURCHASED AT OTHER RATES



For the Commission, its Accountant Early, in his testimony, and in his Exhibit 140 (Schedule B-21, Sheet 3, page 105 of said exhibit) reduced the operating expenses for the year 1939, as shown by the books of the company, in the amount of \$507,913.23, down to \$425,018.63. He also suspended for further consideration of the Commission \$125,587.98. The Commission in its findings and opinion, however, allowed these items so adjusted and suspended.

EXPENSES SUSPENDED FOR FURTHER CONTRIBUTION TO THE COMMISSION FOR THE YEARS 1937, 1938 AND 1939

Year ended December 31, 1937
1938
1939

Income Statement
No. Suspension No.
(1)

Particulars

C (Cont'd).

In view of the statements made by Mr. Lerch and the relative smallness of the amounts involved, it is recommended that the charges identified by the suspension be allowed as necessary and legitimate expenses and therefore included in the cost of conducting gas operations. Suspension has been made by the Examiner primarily in order that the Commission might have before it in this suspension and in Suspension B a summary of service charges made by associated companies to the Respondent and included in its operating expenses.

Federal income tax

Income taxes for the years 1937, 1938 and 1939, as adjusted, have been suspended for further study and consideration by the Commission and its staff for the reason that the income received by the Respondent, and which constituted the basis for the assessment of its income taxes, may, as a result of this proceedings, be found to have been in excess of a fair return. The Examiner recommends that the charges chargeable to the ratepayers include, with respect to income taxes, only such an amount as would represent the necessary taxes required to be paid based upon the income which the Commission determines it is proper for the Company to earn.

Colorado income tax

The comments above under Suspension D also pertain to Suspension E.

Items charged to expense claimed as cost of gas plant in report of Ford, Bacon & Davis, Inc., dated April 15, 1940

Certain expenses for the years 1937, 1938 and 1939, now claimed by the Respondent as gas plant capital expenditures, have been suspended in order that the expenses so claimed may be identified for the attention of the Commission and its staff. The report of Ford, Bacon & Davis, Inc. covering the claim for restatement of plant has been filed with the Commission by the Respondent. A reconciliation of the amounts shown in the report of Ford, Bacon & Davis, Inc. for the years 1937, 1938 and 1939 with the amounts of this suspension is as follows:

Per Ford, Bacon & Davis, Inc. report 144,522.63 \$56,777.13

Portion of work order 270 (making profile map) claimed as gas plant, expended in the year 1937, and closed to expense in the year 1938 (The entire amount charged to this work order in the year 1937 is transferred to 1937 operating expenses in Examiner's entry 8-151)

Less, interest during construction claimed as gas plant, not included in this suspension

Per this suspension

\$ 391,526.13 & 309,537.61 & 225,000.00

\$ 27,114.12 & 19,262.11 & 2,107.57

\$ 14,283.75 & 50,156.76 & 55,541.00

1559.21 559.21

(248.88) (1,122.27) (1,615.34)
\$41,283.75 \$50,156.76 \$55,541.00

COLORADO INTERSTATE GAS COMPANY
SUMMARY OF CONDENSED INCOME AND SURPLUS ACCOUNTS, AS ADJUSTED
BY PERIODS - JUNE 19, 1928 TO DECEMBER 31, 1939

Line No.	Particulars	Year Ended December 31						
		1939	1938	1937	1936	1935	1934	1933
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Utility Income								
1	Operating revenues	\$5,773,009.87	\$5,201,372.59	\$5,569,883.92	\$5,265,787.40	\$4,321,137.07	\$3,813,356.47	\$3,522,149.18
2	Operating revenue deductions							
3	Gas purchased for resale	\$2,112,950.70	\$2,006,525.25	\$1,982,268.90	\$1,910,294.08	\$1,880,162.96	\$2,283,518.16	\$1,959,977.11
4	Operating expenses	425,018.63	394,920.21	394,353.76	381,049.06	308,225.67	313,327.26	328,117.13
5	Depreciation	266,384.97	261,037.57	261,156.72	259,836.97	254,454.43	254,689.94	255,803.22
6	Taxes	614,947.77	514,999.69	533,746.26	485,348.99	348,073.48	220,935.22	193,166.63
7	Nonrecurring expenses	45.19	1,810.79	4,516.49	19,055.53	30,178.44	25,498.58	-
8	Total operating revenue deductions	\$3,419,347.26	\$3,179,293.51	\$3,176,042.13	\$3,055,584.65	\$2,821,094.98	\$3,097,969.16	\$2,737,064.09
9	Net utility income	\$2,353,662.61	\$2,022,079.08	\$2,393,841.79	\$2,210,202.77	\$1,500,042.09	\$715,387.31	\$785,085.09
Other Income								
10	Interest							
11	Profit on Canadian River Gas Company bonds redeemed	11,900.00	14,790.00	17,820.00	17,950.00	17,850.00	17,820.00	17,850.00
12	Miscellaneous	542.37	474.63	458.65	383.62	205.28	300.93	6,956.38
13	Total other income	\$452,826.68	\$492,995.79	\$535,651.60	\$571,099.36	\$609,252.67	\$660,489.33	\$791,947.98
14	Gross income	\$2,806,489.29	\$2,515,074.87	\$2,929,493.39	\$2,781,302.13	\$2,109,294.76	\$1,375,876.64	\$1,577,033.07
Income Deductions								
15	Interest on long-term debt	\$329,233.33	\$589,595.83	\$682,425.00	\$723,920.00	\$819,900.00	\$882,180.00	\$944,460.00
16	Amortisation of debt discount and expense	40,178.95	7,632.19	701.76	701.76	701.76	701.76	701.76
17	Other interest charges	1,754.02	6,627.70	-	-	-	2,404.51	14,922.01
18	Interest charged to construction - credit	-	-	-	-	-	-	-
19	Premium on Colorado Interstate Gas Company bonds redeemed	-	25,800.00	15,570.00	46,680.00	31,140.00	31,140.00	31,140.00
20	Miscellaneous	32,538.31	35,146.05	33,691.80	10,091.75	6,811.85	2,131.19	2,080.50
21	Total income deductions	\$403,704.61	\$664,801.77	\$732,388.56	\$781,393.51	\$858,553.61	\$918,557.46	\$993,304.27
22	Net income or (loss)	\$2,402,784.68	\$1,850,273.10	\$2,197,104.83	\$1,999,908.62	\$1,250,741.15	\$457,319.18	\$583,728.80
Earned Surplus								
23	Balance at beginning of period	\$5,705,849.17	\$5,225,576.07	\$5,085,971.24	\$4,768,562.62	\$4,417,821.47	\$3,960,502.29	\$3,376,773.49
24	Add net income as above	2,402,784.68	1,850,273.10	2,197,104.83	1,999,908.62	1,250,741.15	457,319.18	583,728.80
25	Deduct dividends declared and paid							
26	On common stock	(1,875,000.00)	(1,250,000.00)	(1,937,500.00)	(1,562,500.00)	-	-	-
27	On preferred stock	(120,000.00)	(120,000.00)	(120,000.00)	(120,000.00)	(900,000.00)	-	-
28	Balance at end of period	\$6,113,633.85	\$5,705,849.17	\$5,225,576.07	\$5,085,971.24	\$4,768,562.62	\$4,417,821.47	\$3,960,502.29

COLORADO INTERSTATE GAS COMPANY
SUMMARY OF CONDENSED INCOME AND SURPLUS ACCOUNTS, AS ADJUSTED
BY PERIODS - JUNE 19, 1928 TO DECEMBER 31, 1939

Year Ended December 31												June 19, 1928 to December 31, 1928
1939 (2)	1938 (3)	1937 (4)	1936 (5)	1935 (6)	1934 (7)	1933 (8)	1932 (9)	1931 (10)	1930 (11)	1929 (12)		(13)
\$5,773,009.87	\$5,201,372.59	\$5,569,883.92	\$5,265,787.40	\$4,321,137.07	\$3,813,356.47	\$3,522,149.18	\$3,881,240.16	\$3,532,035.67	\$3,279,444.28	\$2,638,951.07		\$830,013.05
\$2,112,950.79	\$2,006,525.25	\$1,982,268.90	\$1,910,294.08	\$1,880,162.96	\$2,283,518.16	\$1,959,977.11	\$2,104,468.98	\$1,740,935.11	\$1,564,705.58	\$ 602,613.53		\$259,392.84
425,018.63	394,920.21	394,353.76	381,049.06	308,225.67	313,327.26	328,117.13	360,184.02	381,172.27	308,748.46	248,504.98		143,618.19
266,384.97	261,037.57	261,156.72	259,836.97	254,454.43	254,689.94	255,803.22	253,055.67	244,612.77	223,914.91	196,934.03		91,579.09
614,947.77	514,999.69	533,746.26	485,348.99	348,073.48	220,935.22	193,166.63	188,869.62	179,518.87	184,345.70	278,844.29		31,184.07
45.19	1,810.79	4,516.49	1,055.53	30,178.44	25,498.58	-	-	-	-	-		-
\$3,419,347.26	\$3,179,293.51	\$3,176,042.13	\$3,055,584.68	\$2,821,094.98	\$3,097,969.16	\$2,737,064.09	\$2,906,578.29	\$2,546,239.02	\$2,281,714.65	\$1,326,896.83		\$525,774.19
\$2,353,662.61	\$2,022,079.08	\$2,393,841.79	\$2,210,202.77	\$1,500,042.09	\$ 715,387.31	\$ 785,085.09	\$ 974,661.87	\$ 985,796.65	\$ 997,749.63	\$1,312,054.24		\$304,238.86
\$ 440,384.31	\$ 477,731.16	\$ 517,372.95	\$ 552,865.74	\$ 591,197.39	\$ 642,368.40	\$ 767,141.60	\$ 739,757.38	\$ 757,753.78	\$ 761,531.49	\$ 766,322.71		\$299,924.39
11,900.00	14,790.00	17,820.00	17,350.00	17,850.00	17,820.00	17,850.00	23,760.00	23,800.00	23,760.00	-		-
542.37	474.63	458.65	383.62	209.28	300.93	6,956.38	493.07	1,826.34	1,965.82	784.074.49		1,141.71
\$ 452,826.68	\$ 492,995.79	\$ 535,651.60	\$ 571,099.36	\$ 609,252.67	\$ 660,489.33	\$ 791,947.98	\$ 764,010.45	\$ 783,380.12	\$ 787,257.31	\$1,550,397.20		\$301,066.10
\$2,806,489.29	\$2,515,074.87	\$2,929,493.39	\$2,781,302.13	\$2,109,294.76	\$1,375,876.64	\$1,577,033.07	\$1,738,672.32	\$1,769,176.77	\$1,785,006.94	\$2,862,451.44		\$605,304.96
\$ 329,233.33	\$ 589,595.83	\$ 682,425.00	\$ 723,920.00	\$ 819,900.00	\$ 882,180.00	\$ 944,460.00	\$1,006,740.00	\$1,069,020.00	\$1,131,275.00	\$1,013,904.67		\$496,807.50
40,178.95	7,632.19	701.76	701.76	701.76	701.76	701.76	701.76	698.25	698.25	698.25		349.13
1,754.02	6,627.70	-	-	-	2,404.51	14,922.01	36,048.34	46,694.45	14,716.57	61,022.27		208,866.84
-	-	-	-	-	-	-	-	-	-	-		(191,901.80)
-	25,800.00	15,570.00	46,680.00	31,140.00	31,140.00	31,140.00	41,520.00	41,520.00	41,480.00	-		-
32,538.31	35,146.05	33,691.80	10,091.75	6,811.85	2,131.19	2,080.50	1,931.65	2,985.86	7,142.26	701.82		350,217.87
\$ 403,704.61	\$ 664,801.77	\$ 732,388.56	\$ 781,393.51	\$ 858,553.61	\$ 918,557.46	\$ 993,304.27	\$1,086,941.75	\$1,160,918.56	\$1,195,312.08	\$1,076,327.01		\$864,339.54
\$2,402,784.68	\$1,850,273.10	\$2,197,104.83	\$1,999,908.62	\$1,250,741.15	\$ 457,319.18	\$ 583,728.80	\$ 651,730.57	\$ 608,258.21	\$ 589,694.86	\$1,786,124.43		(\$259,034.58)
\$5,705,849.17	\$5,225,576.07	\$5,085,971.24	\$4,768,562.62	\$4,417,821.47	\$3,960,502.29	\$3,376,773.49	\$2,725,042.92	\$2,116,784.71	\$1,527,089.85	\$ (259,034.58)		(\$259,034.58)
2,402,784.68	1,850,273.10	2,197,104.83	1,999,908.62	1,250,741.15	457,319.18	583,728.80	651,730.57	608,258.21	589,694.86	1,786,124.43		(\$259,034.58)
(1,875,000.00)	(1,250,000.00)	(1,937,500.00)	(1,562,500.00)	-	-	-	-	-	-	-		-
(120,000.00)	(120,000.00)	(120,000.00)	(120,000.00)	(900,000.00)	-	-	-	-	-	-		-
\$6,113,633.85	\$5,705,849.17	\$5,225,576.07	\$5,085,971.24	\$4,768,562.62	\$4,417,821.47	\$3,960,502.29	\$3,376,773.49	\$2,725,042.92	\$2,116,784.71	\$1,527,089.85		(\$259,034.58)

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Schedule B-16
Sheet 12 of 50

**COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO THE INCOME ACCOUNT**

32

Particulars	Year to Which Applicable	Debit	Credit
No. B-119			
Operating expenses - general and ad- ministrative expenses - stores expenses	1939	\$ 121.17	
Prepayments	12/31/39		\$ 121.17

To reclassify 1939 inventory adjustments which were carried by Respondent in the balance sheet under prepayments caption as of December 31, 1939.

No. B-120

Operating expenses - maintenance of transmission line equipment	1938	\$ 7,993.82	
do.	1937	8,835.52	
do.	1936	8,630.30	
Operating revenues	1938		\$ 7,993.82
do.	1937		8,835.52
do.	1936		8,630.30

To reclassify as operating expenses the allowances to Arkansas Valley Natural Gas Company which were recorded on the Respondent's books as a reduction of operating revenue. See explanation of entry B-106 for further details regarding the nature of these allowances. See also entry 141 for further adjustment of items in question.

Docket G-124

Schedule B-16
Sheet 22 of 50

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO THE INCOME ACCOUNT.

42

Particulars	Year to Which Applicable	Debit	Credit
No. R-132			
Accrued utility revenues	12/31/39	\$ 78,685.11	
Operating revenues	1939	5,592.12	
Operating revenues	1939		\$ 84,277.23

To set up the estimated accrued utility revenues unbilled at December 31, 1939, based on actual meter readings at that date. Prior to 1939 the Respondent's practice was to set up this accrual at the end of each year and to reverse the entry in the following January. However, this procedure was discontinued as of Dec. 31, 1939. In order that the schedule of operating revenues for the year 1939 may be presented on a basis comparable with the preceding years, the estimated accrued utility revenues are taken into account by this entry. The distribution of the volume of gas as between residential and commercial gas and industrial gas is based on the ratio of each type of service to the total in the previous monthly billing period. The allowances for space-heating gas are based on allowance in the previous monthly billing period. Following is the detail of the accrued revenues by customers and by types of service:

Description	Revenue	M. C. F.	
		Contract Metering Base	Uniform Base 14.65 lbs. per sq.in.
Gross revenues accrued			
Citizens Utilities Company			
(Dec. 16 - Dec. 31)			
La Junta			
Residential and commercial gas			
At 40 cents per MCF	\$ 555.20	1,388	1,250
At 36 cents per MCF	1,374.48	3,818	3,440
Industrial gas	362.84	1,506	1,357
Gas lost	221.94	932	840
Total La Junta	\$2,514.46	7,644	6,887

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Schedule B-16
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COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO THE INCOME ACCOUNT

54

Particulars	Year to Which Applicable	Debit	Credit
No. 141			
Miscellaneous income deductions	1939	\$ 7,359.84	
Do.	1938	7,993.82	
do.	1937	8,835.52	
do.	1936	8,630.30	
do.	1935	4,692.83	
Operating expenses - maintenance of transmission line equipment	1939		\$ 7,359.84
do.	1938		7,993.82
do.	1937		8,835.52
do.	1936		8,630.30
do.	1935		4,692.83

To relieve operating expenses of the allowances by the Respondent to Arkansas Valley Natural Gas Company representing 15% of the Respondent's revenue from the U.S. Veterans Administration at Fort Lyon, Colorado. According to the terms of an amendatory agreement between the Respondent and Arkansas Valley Natural Gas Company dated December 5, 1935, retroactive to May 1, 1935, these allowances were in consideration for the maintenance by Arkansas Valley Natural Gas Company of the Respondent's pipe line which serves the Veterans Administration. This pipe line is approximately 2.9 miles in length.

On November 17, 1939 and again on January 18, 1940 the Examiner requested the Respondent in writing to furnish: (1) The book cost of the above pipe line, (2) the basis for arriving at 15% of gross revenue from the Veterans Administration as payment for maintenance of said pipe line, and (3) a statement of the actual amounts expended by Arkansas Valley Natural Gas Company for maintenance of the pipe line. To date no response has been received by the Examiner to the above-mentioned letters. The amounts are, therefore, entirely unsupported.

Two instances were noted in which the Respondent bore actual expenses of certain maintenance on the line in question which, according to the terms

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Sheet 35 of 50

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO THE INCOME ACCOUNT

55

No. 141 (cont'd)

of the contract dated December 5, 1935, apparently should have been borne by Arkansas Valley Natural Gas Company.

On work order No. 222, zinc rod cathodic protection was installed, according to company drawings, on approximately 54,632 feet of pipe line in 1936, including 2,164 feet of pipe line in the section agreed to be maintained by Arkansas Valley Natural Gas Company. The total charges to this work order were \$14,208.99, and the entire amount was charged on voucher K-35, dated October 31, 1936, to account 385-D, Maintenance of Transmission Line Equipment. An allocation of the total charges to this work order on a per-foot basis shows that approximately \$550.00 would be properly chargeable to the section of line agreed to be maintained by Arkansas Valley Natural Gas Company, but no part of the cost of the work was charged to that company.

On work order No. 282, zinc rod cathodic protection was installed, according to company drawings, on 8,800 feet of six inch line in 1937, all within the section to be maintained by Arkansas Valley Natural Gas Company. The total charges to this work order amounted to \$2,228.58, all of which was charged on voucher M-41, dated December 31, 1937, to account 385-D, Maintenance of Transmission Line Equipment. The title of this work order indicated that the work was chargeable to Arkansas Valley Natural Gas Company, and the completion notice signed by Mr. J. P. McGlintock, General Superintendent, dated November 10, 1937, had the following statement under "Remarks":

"Please charge to Arkansas Valley Natural Gas Company, maintenance expense on 6" line from Arkansas River Crossing to Fort Lyon."

Work orders are ordinarily charged by the Respondent as recommended by the General Superintendent. However, in this instance, Arkansas Valley Natural Gas Company objected to the charge, as evidenced by a telegram dated January 28, 1938 from the Respondent's Colorado Springs office to the New York office, in which the opinion of Mr. F. H. Lerch, Jr., then Vice President of Colorado Interstate Gas Company as to the disposition of the charge was requested. In Mr. Lerch's reply of the same date, he suggested that the charge be made to Colorado Interstate Gas Company as similar items in the past.

Effective April 1, 1940, Arkansas Valley Natural Gas Company sold most of its properties to Citizens Utilities Company, including its properties in the vicinity of the Veterans Administration. Beginning April 1, 1940, no further allowances of 15% of the Respondent's revenue from the Veterans Administration were made by the Respondent, either to Arkansas Valley Natural Gas Company or to Citizens Utilities Company. The expenses in question are therefore nonrecurring as well as unsupported.

1701

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Exhibit No. 140

Schedule B-16
Sheet 49 of 50

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO THE INCOME ACCOUNT

69

Particulars	Year		Debit	Credit
	to Which			
	Applicable			

No. R-153

Other deferred debits	12/31/39	\$58,290.20	
Operating expenses (detailed below)	1939		\$58,290.20

To reclassify, pending decision of the Commission as to proper disposition thereof, expenses incurred by Respondent to December 31, 1939 as a result of the rate investigation by the Commission:

<u>Account Credited Herein</u>	<u>Amount</u>
Miscellaneous general expenses (Colorado Springs office)	\$51,797.21
Special legal services	6,382.16
Rent	110.93
Total	<u>\$58,290.20</u>

Analytical details of the above amount are presented on Subschedule 1 of Schedule A-13 which supports the deferred amount appearing in the balance sheet as of December 31, 1939.

Reclassification as a deferred debit has the effect of placing the charges in suspense pending the Commission's decision regarding ultimate disposition thereof.

CUMMINS INDUSTRIAL GAS COMPANY

OPERATING EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 1939

Line No.	Particulars (1)	Per Books (2)	Reclassification (3)		Adjustments (4)		As Reclassified (5)	Further Consideration of the Commission Suspension No. (6)		Income Statement (10)
			Debit (3)	Credit (4)	Debit (5)	Credit (6)		Debit (7)	Credit (8)	
<u>General and Administrative Expenses (Cont'd)</u>										
<u>Operating (Cont'd)</u>										
56	Heat	\$ 1,670.03	(B-119) \$ 171.17		(B-134)	\$ 110.05	\$ 1,560.00	\$ 1,560.00		9
57	Stores expenses		(B-120) 2,708.69				5,085.76	5,085.76		9
58			(B-127) 195.90							
59	Management and supervision fees and expenses (Gas Companies Incorporated)		(B-116) 15,308.04		(B-125)	750.46	15,308.03	15,308.03		8
60	Nonoperating expenses				(B-116)	3,585.00				
61	Miscellaneous general expenses	5,719.55			(B-131)	1,155.06	49.54	49.54		
62	New York office				(B-146)	908.04				
63					(B-138)	15,537.54	861.54	861.54		9
64	Colorado Springs office	71,675.46	(B-125)	200.00						
65					(B-152)	5,676.97				
66					(B-155)	52,797.23				
67	Under-distributed auto expenses						0			
68	General	218.60					218.60			
69	Telephone system	1,804.05					1,804.05			
70	Land department	526.71					526.71			
71	Total operation	\$179,086.13	\$23,537.16	\$ 2,295.14	\$103,604.15	\$ 135.71	\$102,717.14			
<u>Maintenance</u>										
72	Telephone system	\$ 568.87					568.87			
73	Office and other general equipment	200.91					200.91			
74	Total maintenance	\$ 769.78					769.78			
75	Total general and administrative expenses	\$179,855.91	\$23,537.16	\$ 2,295.14	\$104,403.93			\$ 906.71	\$103,517.22	\$ 3,680.83
76	Total operating expenses	\$67,313.93	\$26,540.94	\$103,820.59	\$132,642.58	\$ 667.79	\$132,910.35	\$132,910.35		

Notes

- (1) Amount per books and as adjusted includes \$10,340.27 for expense of soil reactivity survey on main line from Clayton to Denver. The Bureau of Engineering recommends that this item be considered extra-salary expense.
- (2) Employees' welfare expenses for the year 1939 include \$21,659.17 representing payments by the company as result of retirement plan agreement effective January 1, 1939 with The Prudential Insurance Company of America. The plan provides, in effect, of two parts: (1) It provides that the employee shall contribute within certain limits, within maximum and minimum limits, based upon current salary, to purchase annuities and that the company match such contributions, and (2) It further provides that the company pay for the entire annual cost for 1939 and subsequent years of providing additional annuities based upon services rendered prior to January 1, 1939, such payments being determined by the length of the employee's service with the company prior to January 1, 1939 and the salary rate in effect as of January 1, 1939. The amount which the company paid for the year 1939 as a result of the latter provision was \$10,352.13.

This witness also prepared and submitted in evidence Exhibit 144, described by him as follows:

A. "This report consists of a balance sheet of Colorado Interstate Gas Company as at December 31, 1929, and eight accompanying schedules. Statement A-1 shows the balance sheet per the company's books, adjustments and reclassifications of items contained in it, which were made by the Examiner, and, finally, the balance sheet as adjusted. The eight schedules comprise one that summarizes the Examiner's adjustment and reclassification entries and seven that support and explain balance sheet items, namely, Investment in and Advances to Associated Companies, Unamortized Debt Discount and Expense, Other Deferred Debits, including Rate Case Expenses, Capital Stock, Long-Term Debt, and Surplus.

"Schedule A-10, which is the first schedule, gives the Examiner's Adjustments and Reclassifications in summary form; it does not show the reclassification and adjusting entries themselves. The entries are to be found in other accounting studies which were prepared by members of the Federal Power Commission staff and which will also be offered in evidence in this case.

"Entries Nos. 100 to 154, inclusive, are shown in Schedule B-16 of the study entitled 'Income Accounts and Supplemental Data, including Examiner's Reclassifications and Adjustments;' Entries Nos. 200 to 227, inclusive, are given in the study entitled 'Gas Plant Accounts and Examiner's Adjustments;' and Entries Nos. 400 to 407, inclusive, are part of the study on 'Annual and Accrued Depreciation of Gas Plant, and Examiner's Adjustments.'

"The adjustment and reclassification debits and credits shown against balance sheet accounts on Statement A-1 are the footings of the columns in Schedule A-10, each of which columns represents a balance sheet account and contains all the entries affecting the account that it represents.

"Schedule A-11 presents the particulars of the company's investment in and advances to Canadian River Gas Company.

"Schedule A-12 shows the expenses relating to the issu-

ance of the company's bonds, the annual amortization on those bonds from 1928 to 1939, inclusive, and their unamortized balance as at December 31, 1939. It also shows payments made in connection with the reduction in 1938 of bond interest, from 6 per cent to $3\frac{1}{2}$ per cent per annum, together with the amortization thereof as adjusted for the years 1938 and 1939, and the unamortized balance as adjusted as of December 31, 1939.

"Schedule A-13, which is made up entirely of Examiner's reclassification and adjustment items, is a summary of Other Deferred Debits. It is supported by Schedule A-13-1 which is an analysis of rate case expenses incurred by the respondent during 1939.

"These rate case expenses have been reclassified as deferred debits (Entry R-153) pending the decision of the Commission as to their disposition. The total amount of Schedule A-13-1, \$58,290.20, represents Suspension G of Expenses Suspended for Further Consideration of the Commission, in Statement B-4 of the study on income accounts. Approximately \$52,000 of the total is the cost of a valuation and physical inspection made of the company's properties by Ford, Bacon & Davis, Inc. This firm billed for its work at cost of services, plus 10 per cent, plus overheads of approximately 75 per cent, and plus expenses at cost.

"Schedule A-14 shows the number of shares of capital stock outstanding, both common and preferred, their book value, the consideration for which issued, the names of their holders at December 31, 1939, and the terms upon which the preferred stock is callable. At the balance sheet date there were three shareholders of the 1,250,000 shares of common stock outstanding; Standard Oil Company (New Jersey) with 531,250 shares issued for \$1,000,000 in cash; Southwestern Development Company with 531,250 shares valued at \$1,000,000, issued as part consideration for Canadian River Gas Company (one of its subsidiaries) entering into a contract to sell natural gas to this company; and Public Service Company of Colorado with 187,500 shares valued at \$352,941.17 which were initially issued to Cities Service Company in consideration for Public Serv-

ice Company of Colorado and Pueblo Gas & Fuel Company (two subsidiaries of Cities Service Company) entering into contracts to purchase natural gas from this company. At December 31, 1939, there were two shareholders of the 20,000 shares of preferred stock outstanding: Standard Oil Company (New Jersey) with 10,000 shares issued for \$1,000,000 in cash; and Consolidated Oil Corporation with 10,000 shares which were originally issued to Southwestern Development Company as part consideration for Canadian River Gas Company entering into a contract to sell natural gas to this company.

Schedule A-15 shows the total amount of company's twenty-year bonds, dated June 1, 1928, that have been issued, the amount of them that have been redeemed, and the balance of them outstanding on December 31, 1939. They comprise the company's entire long-term debt. These bonds were issued in 1928 and 1929 at 100 in the principal amount of \$19,200,000. From June 1, 1930, to December 31, 1939, \$10,335,000 of them, in principal amount, had been redeemed leaving outstanding as of December 31, 1939, bonds in the principal amount of \$8,865,000. Redemptions were made in accordance with the provisions of the Bond Indenture, at prices ranging from 102 to 104, except that since November 1, 1938, redemptions have been made at 100. From their date of issuance until November 1, 1938, the bonds bore interest at the rate of 6 per cent per annum; since November, 1938, they have paid interest at the rate of 3½ per cent per annum. The change in the redemption price and the interest rate of the bonds was made in connection with the purchase of the bonds by Guaranty Trust Company of New York and The Mutual Life Insurance Company of New York from their former owners.

Schedule A-16 shows twenty-four Examiner's adjustments and reclassifications of the Surplus Account that increase the balance of that account as of December 31, 1939, from \$2,479,133.92 to \$6,113,633.83. These entries are the same as those shown in Column 16 of Schedule A-10. They are reproduced in Schedule A-16 so that they may be more conveniently referred to and to provide a reconciliation of the amount of the balance in the Surplus Account per books and as adjusted by the Examiner."

Q. Mr. Early, in the preparation of this Exhibit 144, you, of course, had available to you the books, accounts and records of the Colorado Interstate Gas Company?

A. Yes, I did.

Q. And from those you prepared this exhibit?

A. That is correct.

Q. And I also note that on the title page that subsequent to your preparation of the formal exhibit and before it was reproduced it received the approval of Kenneth L. Smith in charge of field assignment; Harold Tomlin, Examiner in charge of the regional office; and W. E. Baker, chief accountant, all of whom are on the accounting staff of the Federal Power Commission.

A. That is correct.

(Vol. XXXVII, pp. 5080-5085.)

COLOMBIO INTERNATIONAL GAS COMPANY
NEW YORK
December 31, 1979

Line No.	Assets and Other Debits (1)	Per Books (2)	Balance Sheet Adjustments and Reclassifications		As Adjusted (5)	Schedule Reference (6)
			Debit (3)	Credit (4)		
Utility Plant						
1	Gas plant in service	\$14,566,565.56	\$ 208,370.16	\$3,241,989.17	\$11,526,746.35	
2	Construction work in progress	29,677.85			29,677.85	
3	Gas plant held for future use	-	19,994.71		19,994.71	
4	Gas plant adjustments	-	2,352,941.17		2,352,941.17	
5	Total utility plant	\$14,596,043.21	\$2,575,306.04	\$3,241,989.17	\$13,989,360.08	
Investment and Fund Accounts						
6	Other physical property (excess land purchased in connection with right-of-way acquisitions)	\$ 14,354.51	\$ 2,389.40		\$ 16,723.91	
7	Investment in and advances to associated company	6,105,254.14			6,105,254.14	A-11
8	Total investment and fund accounts	\$ 6,119,588.65	\$ 2,389.40		\$ 6,121,978.05	
Current and Accrued Assets						
9	Cash and working funds	\$ 44,196.18			\$ 44,196.18	
10	Special deposit (for sinking fund purposes)	48,000.00			48,000.00	
11	Notes receivable	67,961.25			67,961.25	
12	Accounts receivable	1,92,693.51			1,92,693.51	
13	Customers	3,314.65			3,314.65	
	Other					
	Receivables from associated companies					
14	Standard Oil Company of New Jersey (advances subject to repayment upon call)	600,236.98			600,236.98	
15	Cumulative River Gas Company	215,084.76	\$ 56,318.18		271,342.94	
16	Natural Gas Pipe Line Company of America	126,907.32			126,907.32	
17	Accrued interest receivable	174.58			174.58	
18	Accrued utility revenues		78,685.11		78,685.11	
19	Materials and supplies	60,185.60			60,185.60	
20	Prepayments	14,597.02	1,190.99		15,534.24	
21	Total current and accrued assets	\$ 1,675,291.65	\$ 136,161.66	\$ 121.17	\$ 1,809,332.16	
Deferred Debits						
22	Unamortized debt discount and expense	\$ 193,043.04		\$ 25,287.82	\$ 167,755.22	A-12
23	Other deferred debits		\$ 375,213.05		\$ 375,213.05	A-13
24	Total deferred debits	\$ 193,043.04	\$ 375,213.05	\$ 25,287.82	\$ 542,162.66	
25	Total Assets and Other Debits	\$22,861,946.55	\$3,089,970.17	\$3,266,207.77	\$22,702,832.95	

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Exhibit No. 144

COLORADO INTERSTATE GAS COMPANY
LEASES HERE

DATE: DECEMBER 31, 1939

Line No.	Liabilities and Other Credits	Examiner's Adjustments			Schedule Reference
		Per Books	Debit	Credit	
	(1)	(2)	(3)	(4)	(5)
26	Capital stock				
27	Common stock		\$ 2,352,941.17		\$ 2,352,941.17
	Preferred stock		2,000,000.00		2,000,000.00
28	Total capital stock		\$ 4,352,941.17		\$ 4,352,941.17
29	Long-Term Debt				
	First Mortgage and Collateral Trust Twenty-year 3 1/2% Sinking Fund Gold Bonds, due June 1, 1948				
			\$ 8,865,000.00		\$ 8,865,000.00
30	Current and Accrued Liabilities				
	Accounts payable		69,934.85		69,934.85
	Payable to associated company (Gas Companies Incorporated)		4,000.00		4,000.00
31	Accrued liabilities				
	Taxes		619,801.86	14.12	619,787.74
	Interest		85,856.25		85,856.25
32	Total current and accrued liabilities		\$ 715,792.86	\$ 14.12	\$ 715,778.74
33	Reserves				
	Reserve for depreciation of gas plant in service		\$ 1,924,392.35	\$ 5,166,680.65	\$ 2,881,072.00
	Reserve for depreciation of gas plant held for future use			1,319.04	1,319.04
	Reserve for amortization		3,171,546.15	3,171,546.15	3,171,546.15
34	Total reserves		\$ 6,146,938.50	\$ 8,643,485.79	\$ 2,652,734.72
35	Contingent Liability				
	The company has guaranteed the payment of principal and interest of a demand note of Ford, Bacon & Davis, Inc. in the amount of \$50,000.00				
36	Surplus		\$ 2,179,131.92	\$ 3,100,761.27	\$ 7,035,264.20
37	Total Liabilities and Other Credits		\$ 22,881,066.55	\$ 10,016,793.98	\$ 9,863,990.36
38					\$ 22,734,928.52

Exhibit No. 144

2

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Exhibit No. 12A

Schedule A-10
Sheet 1 of 2

2

COLORADO INTERSTATE GAS COMPANY
 SUMMARY OF EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES APPLIED TO THE BALANCE SHEET
 AT DECEMBER 31, 1999

[illegible]

Exhibit No. 111

Schedule A-10
Sheet 2 of 2

4

COLORADO INTERSTATE GAS COMPANY
SUMMARY OF EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES APPLIED TO THE BALANCE SHEET
AT DECEMBER 31, 1939

Line No.	Entry No.	Particulars	U t i l i t y P l a n t				Current and Accrued Assets			Deferred Debits		Current Liabilities Accrued Taxes	R e s e r v e s			Income Account (Surplus)
			Gas Plant in Service	Gas Plant Held for Future Use	Gas Plant Adjustments	Other Physical Property	Canadian River Gas Company	Accrued Utility Revenues	Prepayments	Unamortized Debt Discount and Expense	Other Deferred Debits		Reserve for Depreciation of Gas Plant in Service	Reserve for Depreciation of Gas Plant Held for Future Use	Reserve for Amortization	
			(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
26	223	To set up interest during construction as computed by Examiner	\$ 191,901.80													\$ 191,901.80
27	224	To transfer franchises and contracts account to gas plant adjustments	(2,352,941.17)		\$2,352,941.17											
28	225	To transfer net cost of Colorado Springs contract to other deferred debits	(236,666.67)								\$236,666.67					
29	405	To charge reserve for depreciation of gas plant in service with net loss on retirements (as reclassified) from inception to December 31, 1939											\$ 31,729.53			(31,729.53)
30	403	To reverse the Respondent's provisions for depreciation (as reclassified)											5,132,039.84			(5,132,039.84)
31	404	To reverse the Respondent's provisions for amortization (as reclassified)													\$1,471,546.15	(1,471,546.15)
32	402	To correct the retirement of the Clayton properties sold to Canadian River Gas Company											(3,532.73)			3,532.73
33	407	To transfer to the reserve for depreciation of gas plant held for future use the net charge for retirements of this property											(1,319.04)	\$1,319.04		
34	406	To record the adjusted annual depreciation											(2,819,797.11)	(3,663.18)		2,823,460.29
35		Total debits	\$13,131,794.15	\$ 202,370.16	\$19,994.71	\$2,352,941.17	\$2,309,440	\$56,318.18	\$78,685.11	\$1,158.39		\$473.87	\$5,168,620.65	\$1,319.04	\$1,471,546.15	\$3,400,764.27
36		Total credits	(13,131,794.15)	(3,241,989.17)					(121.17)	(25,297.62)	(795.81)	(14.12)	(2,824,648.88)	(3,663.18)		(7,035,264.20)

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Exhibit No. 114

Docket G-124

Schedule A-11
Sheet 1 of 1

COLORADO INTERSTATE GAS COMPANY
INVESTMENT IN AND ADVANCES TO ASSOCIATED COMPANY
DECEMBER 31, 1939

5

Line No.	Particulars (1)	Cost (2)
1	Canadian River Gas Company First Mortgage and Collateral Trust Twenty-year Six Per Cent Sinking Fund Gold Bonds, due June 1, 1948 Colorado Interstate Gas Company has owned all of Canadian River Gas Company's bonds outstanding from the inception of that company in 1928 to December 31, 1939. Such bonds have been pledged by Colorado Interstate Gas Company as collateral for its own bonds.	\$5,057,000.00
2	Canadian River Gas Company Promissory Notes These notes have been issued from time to time by Canadian River Gas Company to finance its current construction after the exhaustion of the funds obtained from the sale of its bonds. The notes are redeemable in equal monthly installments over a period of 120 months from date of issuance or by May 31, 1948, whichever is the shorter period. The notes bear interest at the rate of 6% per annum, payable semiannually on January 1 and July 1.	1,348,254.14
3	Total investment in and advances to associated company	<u>\$6,405,254.14</u>

* Cost is equivalent to the principal amount of debt owned.

COLORADO INTERSTATE GAS COMPANY
UNAMORTIZED DEBT DISCOUNT AND EXPENSE
DECEMBER 31, 1939

Line No.	Particulars	(1)		(2)		(3)	
		Total		Original Expense of Issuance		Reduction of Interest Rate from 6% to 3 1/2% per annum	
Expenses relating to First Mortgage and Collateral Trust Twenty-year Sinking Fund Gold Bonds, dated June 1, 1928, due June 1, 1948							
1	Cost of printing bonds	\$ 10,170.00		\$10,170.00			
2	Service for authentication of bonds	3,120.00		3,120.00			
3	Legal fees and expenses	7,675.00		675.00		\$ 7,000.00	
4	2% premium on \$9,865,000.00 principal outstanding	197,300.00				197,300.00	
5	Transfer taxes	3,946.00				3,946.00	
6	Totals	\$222,211.00		\$13,965.00		\$208,246.00	
Amortization, as adjusted (Note 1):							
7	Year 1928	\$ 319.13		\$ 319.13			
8	" 1929	698.25		698.25			
9	" 1930	698.25		698.25			
10	" 1931	698.25		698.25			
11	" 1932	701.76		701.76			
12	" 1933	701.76		701.76			
13	" 1934	701.76		701.76			
14	" 1935	701.76		701.76			
15	" 1936	701.76		701.76			
16	" 1937	701.76		701.76			
17	" 1938	7,632.19		701.76		\$ 6,930.43	
18	" 1939	10,178.95		701.76		\$ 9,477.19	
19	Total amortization to December 31, 1939	\$ 53,155.38		\$ 8,957.96		\$ 44,197.42	
20	Balance, December 31, 1939	\$ 167,715.12		\$ 5,907.04		\$ 161,808.08	

Note: (1) Amortization has been recorded on the books on a straight-line basis, over the life of the bonds. Amortization of the payments in connection with the reduction of the interest rate from 6% to 3 1/2% per annum has been adjusted by the Examiner to a dollar-a-year basis, instead of a straight-line basis (see Examiner's entry No. 110).

Docket G-124

Exhibit No. 14

Schedule A-14
Sheet 1 of 1COLORADO INTERSTATE GAS COMPANYCAPITAL STOCK

DECEMBER 31, 1939

9

	<u>Common Stock</u>	<u>Preferred Stock (Note 1)</u>
Recorded value per books	\$2,352,941.17	\$2,000,000.00
Shares authorized and issued	1,250,000	20,000
Par value per share	No par	\$100.00
Details of recorded value:		
Cash consideration received	\$1,000,000.00	\$1,000,000.00
Capitalization of contract with Canadian River Gas Company for purchase of gas	1,000,000.00	1,000,000.00
Capitalization of contracts with Public Service Company of Colorado and Pueblo Gas & Fuel Company for sale of gas	352,941.17	
Total recorded value per books (Note 2)	<u>\$2,352,941.17</u>	<u>\$2,000,000.00</u>
Stockholders as of December 31, 1939:		
Standard Oil Company (New Jersey)	531,250 shares	10,000 shares
Southwestern Development Company	531,250 "	
Public Service Company of Colorado	187,500 "	
Consolidated Oil Corporation		10,000 "
Total shares issued and outstanding	<u>1,250,000</u> "	<u>20,000</u> "

Notes:

- (1) The preferred stock is callable on any quarterly dividend payment date after five years from date of issuance (June 5, 1928) at \$105.00 per share plus accrued dividends thereon. Dividends on preferred stock at the rate of 6% per annum are cumulative and payable before any dividends on the common stock may be paid or declared.
- (2) The Examiner has not adjusted capital stock accounts for credits thereto resulting from capitalization of contracts for purchase and sale of gas. The amounts charged to plant by Respondent for capitalization of such contracts were transferred to Gas Plant Adjustments account by adjusting entry number 224. The Gas Plant Adjustments account is subject to such disposition as the Commission may approve or direct.

COLORADO INTERSTATE GAS COMPANY
LONG-TERM DEBT
DECEMBER 31, 1939

10

First Mortgage and Collateral Trust Twenty-year
3½% Sinking Fund Gold Bonds, dated June 1, 1928,
due June 1, 1948:

Issued June 14, 1928, at 100	\$ 7,021,000.00
Issued June 27, 1928, at 100	8,470,000.00
Issued December 3, 1928, at 100	1,401,000.00
Issued December 30, 1929, at 100	2,308,000.00
Total issued	<u>\$19,200,000.00</u>
Principal amount redeemed from June 1, 1930 to December 31, 1939	<u>10,335,000.00</u>

Balance outstanding, December 31, 1939	<u><u>\$ 8,865,000.00</u></u>
--	-------------------------------

Notes:

- (1) The bonds as originally issued bore interest at the rate of 6% per annum. On October 28, 1938 the Board of Directors approved a Third Supplemental Indenture, dated November 1, 1938, to the existing mortgage, under the terms of which the interest rate was reduced from 6% to 3½% per annum, in connection with the purchase of the bonds by the Guaranty Trust Company of New York and The Mutual Life Insurance Company of New York from the previous owners of the bonds.
- (2) According to the terms of the Third Supplemental Indenture, the bonds outstanding on December 31, 1939 are to be redeemed through quarterly sinking fund contributions, on March 1, June 1, September 1, and December 1 of each year, in the following total annual amounts:

Year 1940	\$1,000,000.00
" 1941	1,000,000.00
" 1942	1,000,000.00
" 1943	1,000,000.00
" 1944	1,080,000.00
" 1945	1,080,000.00
" 1946	1,080,000.00
" 1947	1,080,000.00
" 1948	545,000.00
Total	<u><u>\$8,865,000.00</u></u>

EXHIBIT NO. 293.

Dockets G-118, G-121 and G-124.

Written Statement of James V. O'Connor.

Exhibit No. 293 presents estimated volume of gas sales, estimated volume of gas purchased, and estimated operating expenses (excluding purchased gas expense, regulatory commission expense, depreciation expense, Colorado income tax, Federal capital stock tax, and Federal taxes on income) of Colorado Interstate Gas Company for the year 1941. The exhibit is composed of four schedules as follows:

Schedule No. 1: Estimated Volume of Gas Sales, 1941.

Schedule No. 2: Estimated Volume of Gas Purchased, 1941.

Schedule No. 3: Estimated Operating Expenses, 1941 (Excluding purchased gas expense, regulatory commission expense, and depreciation expense).

Schedule No. 4: Estimated Taxes, 1941 (Excluding Colorado income tax, Federal capital stock tax, and Federal taxes on income).

Operating expenses shown in Schedule No. 3 are detailed in the following schedules:

Schedule No. 3-A: Transmission Expenses, 1941.

Schedule No. 3-B: Distribution Expenses, 1941.

Schedule No. 3-C: General and Administrative Expenses, 1941.

The volume of gas sales to each customer, as shown in Schedule No. 1, is based on a study of the records of Colorado Interstate Gas Company, data received from its customers, and an analysis of 1941 market conditions. No increase has been estimated for possible sales to new industrial customers, nor do the estimates reflect possible increases in sales to present customers which would result from reductions in rates.

Schedule No. 2 shows estimated volumes of gas to be purchased in 1941 from Canadian River Gas Company to supply Colorado Interstate Gas Company's requirements

for its Denver Line and the Chicago Line of Natural Gas Pipeline Company of America.

Transmission, distribution, sales promotion, and general and administrative expenses, as shown in Schedules No. 3, 3-A, 3-B and 3-C, are based on an analysis of the experience of the company, in recent years, and consideration of factors which affect these expenses. No estimates have been made of purchased gas expense, regulatory commission expense, and depreciation expense. Sales promotion expense in past years has related to new industrial business; and since no new industrial customers are included in the 1941 sales estimates in Schedule No. 1, no amount has been included for sales promotion expense in Schedule No. 3. The account descriptions shown in Schedules No. 3, 3-A, 3-B and 3-C correspond to those in Exhibit No. 140.

Taxes, shown in Schedule No. 4, have been estimated on the basis of present tax rates. No estimates have been made of Colorado income tax, and the following Federal taxes; capital stock, declared value-excess profits, income, excess profits, and defense taxes.

Schedule No. 1.

Colorado Interstate Gas Company.

Estimated Volume of Gas Sales for the Year 1941

Line	Description	Gas Sales MCF*
	(1)	(2)
Direct Industrial Sales		
1	American Crystal Sugar Company	370,000
2	Atchison, Topeka & Santa Fe Railway Co.	410,000
3	Colorado Portland Cement Company	2,060,000
	Colorado Fuel & Iron Corporation	
4	Boiler Fuel Gas	4,250,000
5	Metallurgical Gas	4,250,000
6	Total	8,500,000
7	Total Direct Industrial Sales	11,340,000

*All MCF figures are on a uniform pressure base of 14.65 pounds per square inch absolute.

Line	Description	Gas Sales MCF*
	(1)	(2)
	Sales to Public Authorities	
8	Department of the Interior	700
9	Veterans Administration	200,000
10	Total Sales to Public Authorities	200,700
11	Total Direct Sales to Ultimate Consumers	11,540,700
	Sales to Gas Utilities	
12	Arkansas Valley Natural Gas Company	16,000
	Citizens Utilities Company	
13	Domestic Gas—First Block	44,000
14	Domestic Gas—Second Block	123,000
15	Total Domestic Gas	167,000
16	Industrial Gas	34,000
17	Gas Lost	22,000
18	Total	223,000
	City of Colorado Springs	
19	Domestic Gas	404,000
20	Space-heating Allowance	255,000
21	Municipal Power Plant Gas	470,000
22	Industrial Gas	177,000
23	Total	1,051,000
	Colorado-Wyoming Gas Company	
24	Domestic Gas	1,398,000
25	Industrial Gas	1,647,700
26	Total	3,045,700
	Public Service Company of Colorado	
27	Domestic Gas	5,120,000
28	Space-heating Allowance	3,330,000
29	Industrial Gas	2,600,000
30	Total	7,720,000

*All MCF figures are on a uniform pressure base of 14.65 pounds per square inch absolute.

Line	Description	Gas Sales MCF*
	(1)	(2)
	Pueblo Gas and Fuel Company	
31	Domestic Gas	390,000
32	Space-heating Allowance	163,000
33	Industrial Gas	280,000
34	Total	670,000
	Natural Gas Pipeline Company of America	
35	Interruptible Gas	7,100,000
36	Other Gas	13,200,000
37	Total	20,300,000
38	Total Sales to Gas Utilities	33,025,700
39	Total Gas Sales	44,566,400

Schedule No. 3.

Estimated Operating Expenses for the Year 1941 (1)

Line	Description	Amount
	Transmission expenses	
1	Operation	\$179,000
2	Maintenance	84,900
3	Total	\$263,900
	Distribution expenses	
4	Operation	\$ 47,900
5	Maintenance	6,800
6	Total	\$ 54,700
7	Sales promotion expenses	—

*All MCF figures are on a uniform pressure base of 14.65 pounds per square inch absolute.

Line	Description	Amount
	General and administrative expenses	
8	Operation	\$107,800
9	Maintenance	1,200
10	Total	\$109,000
11	Total operating expenses	\$427,600

(1) No estimate included for purchased gas expense, regulatory commission expense, and depreciation expense.

Schedule No. 3-A

Colorado Interstate Gas Company

Estimated Operating Expenses for the Year 1941.
Transmission Expenses.

Line	Description	Amount
	Operation	
	Transmission system	
1	Supervision	\$ 11,500
	Operation of transmission lines	
2	Labor	33,000
3	Supplies and expenses	9,000
	Other	
4	Labor	5,300
5	Supplies and expenses	4,800
	Compressing system	
6	Supervision	13,900
	Operation of compressing stations	
7	Labor	50,100
8	Supplies and expenses	30,100
	Other	
9	Labor	14,300
10	Supplies and expenses	7,000
11	Total operation	\$179,000
	Maintenance	
	Transmission system	
12	Line equipment	\$ 18,500
13	Other structures	1,900
14	Other equipment	25,400

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Line	Description	Amount
	Compressing system	
15	Structures	1,300
16	Equipment	32,100
17	Other structures	3,000
18	Other equipment	2,700
19	Total maintenance	\$84,900
20	Total transmission expenses	\$263,900

Schedule No. 3-B.

Colorado Interstate Gas Company.

Estimated Operating Expenses for the Year 1941.

Distribution Expenses.

Line	Description	Amount
	Operation	
	Office expenses	
1	Salaries	\$12,900
2	Stationery and printing	400
3	Other supplies and expenses	200
	Operation at measuring stations	
4	Labor	24,500
5	Supplies and expenses	9,300
6	Miscellaneous	600
7	Total operation	\$47,900
	Maintenance	
8	Measuring station equipment	\$ 6,500
9	Office equipment	300
10	Total maintenance	\$ 6,800
11	Total distribution expenses	\$54,700

Schedule No. 3-C.

Colorado Interstate Gas Company.

Estimated Operating Expenses for the Year 1941.

General and Administrative Expenses (1)

Line	Description	Amount
	Operation	
	Field office salaries	
1	General officers and executives	\$ 9,500
2	Other general office salaries	15,600
	Field office expenses	
3	General officers and executives	1,300
4	General office clerks	400
	Field office supplies and expenses	
5	Stationery and printing	1,400
6	Other supplies and expenses	1,300
	Telephone system	
7	Labor	6,700
8	Supplies and expenses	3,600
	Land department	
9	Labor	2,800
10	Supplies and expenses	700
11	Special services	3,600
12	Special legal services	3,000
13	Insurance	7,900
14	Injuries and damages	700
15	Absent time due to illness	2,400
16	Employees' welfare	22,800
17	Rent	1,600
18	Stores expenses	2,500
19	Management and supervision fees	19,000
20	Miscellaneous general expenses	1,000
21	Total operation	\$107,800
	Maintenance	
22	Telephone system	\$ 900
23	Office and other general equipment	300
24	Total maintenance	\$ 1,200
25	Total general and administrative expenses (1)	\$109,000

(1) No estimate included for purchased gas expense and regulatory commission expense.

Q. Mr. O'Connor, the description you gave of the inquiry by customers, both of the Colorado Interstate Gas Company and some of the utility distributing companies, which you said were contained on three pages, those apply to the estimates made in Exhibit 293 as well as in Exhibit 292?

A. Yes, sir.

Q. Have you made any comparison of your estimates with those made by Mr. Beardsley, which are contained in his Exhibits 56 and 59?

A. I think I did.

Q. You show on a whole as we figure it about 6.5 per cent increase over the figures in the company's exhibits, 56 and 59.

A. 6.5 per cent—I know I have about 1,700,000 Mcf., approximately, on the Denver line and I know I am higher on the Chicago line because I believe Mr. Beardsley used the estimates supplied by the Natural Gas Pipeline Company of America, which seemed to be too low.

Q. Some instances you have increases in your estimates over his, and in others there are some decreases. Did you observe that fact?

A. That is correct.

Q. You have some considerable increase for the Colorado Portland Cement Company. Does that increase involve any recent addition in their capacity or additional business development within the past few months?

A. No, that is based upon information they supplied to us some time ago, but I think we have—well, it may have been as late as January 18, 1941.

Q. You have had more recent information for the purpose of making your estimates than was available when Mr. Beardsley made his?

A. As I recollect Mr. Beardsley said that he wasn't able to contact anybody there so he had to be guided by the recent experience of the company. We found from talking to them that they had additional orders for cement on the Caddoa Dam on the Arkansas River which would involve a substantial increase in production for 1941, 1942, and 1943, so we took that into account.

Then we found that their shipments were running much higher when compared to what they were running a year

ago, so we added 10 per cent more above their normal—we took their four-year average production and added about ten per cent due to increased business activity and then we added the Caddoa Dam order.

They told us they were probably going to get something on the Big Thompson project and this Remington Arms munition factory but they didn't know just how much.

Q. In determining your operating expenses for 1941, did you use 1934 and 1939 as a guide?

A. Well, I used all the data I could get from the analysis prepared by the accounting staff which went back over a period of years, but it was in some detail from 1934 on. It was completely adjusted to their basis for 1937, 1938, 1939, and partially adjusted for major items in 1934, 1935, and 1936.

Then in addition we took off account totals from some of the expenses of the company as a further guide.

Q. You carried forward adjustments that had been made by Mr. Early in Exhibit No. 140?

A. There is one that I can think of specifically and that is an item I have for miscellaneous under distribution system expense. That represents spreading over five years a payment which Colorado Interstate made to Colorado-Wyoming Gas Company in the middle of 1938. They charged it off in the year in which they paid it and he spread it over five years, so to be consistent I had to include the same amount in my estimates.

Q. With respect to this gas purchase expense which you referred to in Schedule No. 3, you have not brought that into the operating expenses of the Colorado Interstate Gas Company as you did in Canadian River?

A. Gas purchased expense?

Q. Yes. You have a note at the bottom of Schedule 3 where you say: "No estimate included for gas purchased expense."

A. I haven't made any estimates of the total gas purchased expense, but I necessarily had to make estimates regarding the amount used in operations.

Q. The statement at the bottom of Schedule 3 does not include that for gas used in operations?

A. That is right.

Q. You have that over in your operating expenses elsewhere?

A. Yes. For instance, on Schedule 3-A under "Compressing System, Supplies and Expenses," are listed at \$30,100. There is around \$18,000 in there for gas used at the compressing stations.

Redirect Examination.

By Mr. Lange:

Q. Mr. O'Connor in the preparation of Exhibit 293, as well as in the preparation of Exhibit 292, I take it you had available the information you have just described as to the company's past history, its records, as well as the information you were able to get from purchasers as to past requirements of gas?

A. That is right. I had all of these records that the accounting staff had made, and we made some analyses of our own, in addition, for some of these expenses where they jumped around, and we wanted to know why.

Q. In other words, then, based upon your analysis of operating expenses of the companies as well as the information that you had as to past sales records of the companies, you then projected these estimates for the year 1941?

A. That is correct.

(Vol. C, pp. 15560-15564.)

24. Annual Operating Expenses and Taxes, Exclusive of Cost of Gas, Income and Capital Stock Taxes, of Colorado Interstate for an Assumed Denver Line for Resale Gas Only, as Estimated, 1928 to 1947, Inclusive.

Exhibit 136 (witness Rhodes, Vol. XXXII, p. 4431) sets forth the annual expenses estimated to be required from 1928 to 1947 inclusive in the operation of Colorado Interstate's portion of the assumed Denver Line for resale gas alone, which line he describes in Exhibit 98. The annual expenses shown are exclusive of income and capital stock taxes and cost of gas at Clayton. Such expenses were determined from the expenses actually incurred by the company from 1928 to 1939 inclusive, set forth in Exhibit 76. Adjustments were made in these expenses to reflect the

difference in annual expenses required by the different facilities involved in the resale line. All adjustments, except for new facilities, were based on the costs actually incurred. The costs for 1928 to 1939 inclusive, were extended through 1947, reflecting the trends in costs actually experienced by the company. The added costs involved in the added peak load compressor station facilities acquired after 1939 were estimated with regard to the character of operation. Savings in the cost in the year 1939 on account of the reduced facilities for the resale line alone are summarized as follows: (p. 4432.)

(a) Reduction in cost of maintaining the compressor stations due to lesser operation of the equipment made possible through the poorer load factor of resale gas as compared with all gas sold.....	\$ 9,225
(b) Reduction in cost of operating and maintaining the transmission lines through the elimination of laterals used solely for direct sale gas	5,701
(c) Reduction in cost of operating and maintaining the telephone system due to the elimination of the Pueblo branch line.....	440
(d) Reduction in the cost of maintaining and operating measuring stations and the Meter Department through the elimination of the meters used solely for direct sale gas.....	19,694
(e) Reduction in Land Department, General Administrative, Other General and New York Office Expenses pro-rata with the above reductions	10,927
(f) Reduction in operating taxes pro-rata with reduction in equivalent original cost of a resale pipe line shown in Exhibit No. 134 as compared with the present line shown in Exhibit No. 67.....	10,642
(g) Elimination of Regulatory Commission expense for adjustment, spreading the estimated total rate case expense over five years.....	63,096

- (h) Total gross deductions from 1939 expenses as incurred \$119,725
- (i) Restoration of one fifth of estimated total rate case expense 43,000
- (j) Net deductions from 1939 expenses shown by Exhibit No. 76 \$ 76,725
- (p. 4433)

These allowances reflect the upper limit of possible savings. Adjustments were made in earlier years reflecting the actual expenses incurred. The expenses of the system as it existed in 1939 were extended through 1947 to reflect the inherently increasing normal costs experienced by the company in past years, and to reflect in future years the annuity and retirement expenditures instituted in 1939 and increases in social security taxes.

In addition to the expenses estimated to be required in the operation of the facilities as they existed in 1939, provision was made for the operation and maintenance of all the additional peak load and booster compressor station facilities described in Exhibit No. 98 which come into operation by 1943. Such additional expenses are as follows:

- (a) Annual operation and maintenance of new 1,800-hp. booster stations at Cimarron, Apishapa and Colorado Springs beginning with 1940 \$48,600
- (b) Annual operation and maintenance of 1,200 hp. peak load addition to Devine Station beginning with 1940 (p. 4434) 4,800
- (c) Annual operation and maintenance of 1,200 hp. peak load additions to Clayton, Cimarron and Apishapa Stations beginning with 1943 14,400
- (d) Total expenses of operating all additional booster and peak load compressor station facilities \$67,800

In determining costs of operating the additional facilities, consideration was given to the fact that such stations and equipment are operated only during the winter months, but a skeleton crew would be required throughout the rest of the year. The cost of such operation is much less than

the cost of regular operation. This is shown by the fact that the average annual cost of operating and maintaining the additional 10,200 horse-power peak load and booster equipment as set forth above is only \$6.65 per horse-power, whereas in 1939 the actual cost of operating and maintaining the 8,000 horse-power in Clayton, Canyon and Devine stations was \$115,646, or \$14.46 per horse-power.

No increase in general expenses was made on account of the additional cost of operating these additional compressor station facilities.

There is attached to the statement showing year by year the estimated annual expenses of a Denver Line for resale gas alone, grouped into the several classes of expense which were separately studied and in which the annual expenses of the added compressor facilities are separately shown. This (p. 4435) statement is reconciled with Exhibit No. 76 as follows:

(a) Total operating and maintenance expenses and operating taxes of Colorado Interstate Gas Company's part of the present system in 1939 per Line 12, Statement No. 1, Exhibit No. 76.....	\$628,065
(b) Deductions from such expenses made in this exhibit as summarized above.....	76,725
(c) Annual expenses of Colorado Interstate Gas Company's part of a Denver line for resale gas alone in 1939 as shown by Column 10 of the attached statement.....	\$551,340

The estimated total annual expenses of Colorado Interstate for resale gas only, 1928 to 1947 inclusive, are shown in the statement attached to Exhibit 136 and are as follows, together with columns showing compressor station capacity as of 1939 with added capacity 1940 to 1947 inclusive. The statement also shows a separation of expenses to the various departments of the system.

Calendar Year	Compressor Stations		Total Annual Expense
	1939 Capacity	Added Capacity	
	(1)	(2)	(10)
1928.....			\$139,037
1929.....	\$ 1,298		261,914
1930.....	36,731		376,154
1931.....	88,064		421,073
1932.....	76,660		430,319
1933.....	70,714		402,426
1934.....	72,505		402,110
1935.....	81,454		389,156
1936.....	100,534		428,943
1937.....	115,229		468,188
1938.....	113,878		471,407
1939.....	106,421		551,340
1940.....	119,200	\$53,400	614,400
1941.....	123,800	53,400	626,600
1942.....	126,600	53,400	638,200
1943.....	129,400	67,800	666,300
1944.....	132,300	67,800	634,600
1945.....	135,200	67,800	645,800
1946.....	137,100	67,800	657,200
1947.....	139,000	67,800	667,300

The witness testified that in compiling the figures in Exhibit 136 he used the figures shown in Exhibit 135 for the years 1928 to 1939, inclusive (p. 4436). The only changes he made were to make deductions on account of less use or lesser expense of the facilities, but without trending it.

With respect to 1940 to 1947 inclusive, he took the figures in Exhibit 135 as trended, and adjusted them to arrive at the new figures. The same results would have been obtained had he trended the new figures for 1928 to 1939 inclusive (p. 4437).

25. Cost at Contract Price of All Gas Delivered to Colorado Interstate at Clayton Junction for the Denver Line.

These costs are shown in Exhibit 164. This exhibit and the testimony relating thereto is abstracted in Canadian's record and is adopted by Colorado Interstate. The costs there shown for the years 1928 to 1939 inclusive and as estimated, 1940 to 1947, inclusive, are as follows:

Year	Production	Gathering	Transmission	Total
	(1)	(2)	(3)	(4)
1928 (A)	\$ 133,948	\$ 16,560	\$ 50,017	\$ 200,525
1929	528,703	99,648	181,232	809,583
1930	916,517	160,621	471,492	1,548,630
1931	1,046,496	131,764	466,992	1,645,252
1932	957,947	120,349	466,901	1,545,197
1933	872,017	117,383	436,962	1,426,362
1934	701,603	93,258	432,420	1,227,283
1935	638,320	79,649	372,108	1,090,077
1936	665,645	95,587	372,600	1,133,832
1937	678,541	101,623	376,483	1,156,647
1938	650,537	105,309	435,038	1,190,884
1939	699,942	112,878	408,188	1,221,008
1940	699,884	113,468	510,142	1,323,494
1941	672,062	121,223	499,803	1,293,088
1942	615,475	114,692	508,103	1,238,270
1943	590,005	112,213	542,541	1,244,759
1944	576,933	109,152	521,686	1,207,771
1945	566,117	108,000	501,758	1,175,875
1946	625,352	120,927	486,372	1,232,651
1947	1,014,218	248,180	471,447	1,733,845

Note (A) 7 Months.

[Testimony of WILLIAM A. LUSK.]

Q. Mr. Lusk, you testified on direct examination last week with reference to the preparation of your Exhibit No. 164, did you not?

A. That is correct, yes sir.

Q. And I notice the title of that, the exhibit, appearing

on the cover of it was "Canadian River Gas Company Computed Costs under Basic Contract Terms, all gas delivered at Clayton Junction, New Mexico, to Colorado Interstate Gas Company, 1928 to 1947, inclusive."

Of course, the exhibit will speak for itself, but what was your purpose for the preparation of it?

A. To establish the cost of gas at Clayton Junction.

Q. Now, the computation of the figures of the cost set forth is limited, of course, in its scope to the provisions of the contract between the two companies as of January 3, 1928, I take it?

A. That is correct, yes, sir.

(Vol. XLV, pp. 6167-6168.)

Now, if an accountant were preparing a cost exhibit and was not limited to the terms of the contract of January 3rd, 1928, he would, of course, not be accordingly limited either in the elements that would be included in such cost would he?

A. That is right. He wouldn't be limited in the scope of his examination. I think we can clear that up by saying that if I were not limited or any accountant limited to the terms of a specific contract, in building this up I would eliminate the amortization and substitute depletion and depreciation.

Q. Yes, sir, and those would be proper elements to go into such costs?

A. That is right.

Q. And in your statement, Exhibit 91, in effect it so stated in the first page of your written statement; that is, you have amplified it now?

A. That is right.

Q. And Exhibit 164, therefore, has no reference to and is not concerned with either depreciation or depletion?

A. No, sir, only in so far as it affects Federal taxes.

Q. Only in so far as it affects Federal taxes.

A. That is right.

Q. Now, then, since it is not concerned with depletion it—strike that.

I will ask you whether the exhibit or the scope of it is in any manner concerned as to the life of the gas field serving these properties?

A. None whatsoever. It is the life of the bond issues and notes up to 1948.

Q. It is limited entirely to the bond issues and notes up to 1948?

A. It is limited to the terms of the contract.

Q. Regardless of what the reserves of gas in the acreage owned by Canadian River Gas Company may be?

A. That is correct, yes, sir.

Q. Or regardless of what the life of that acreage in so far as producing gas may be?

A. That is correct.

(Vol. XLV, pp. 6169-6171.)

26. Cost at Contract Price of Gas Delivered to Colorado Interstate at Clayton Junction for an Assumed Denver Line for Resale Gas Only.

These costs are shown in Exhibit 167. This exhibit and the testimony relating thereto is abstracted in Canadian's record and is adopted by Colorado Interstate. The costs there shown for the years 1928 to 1939 inclusive and as estimated, 1940 to 1947 inclusive, are as follows:

Year	Production	Gathering	Transmission	Total
	(1)	(2)	(3)	(4)
1928 (A)	\$ 58,443	\$ 14,425	\$ 62,224	\$ 135,092
1929	289,616	95,091	259,202	643,909
1930	646,133	156,831	464,746	1,267,710
1931	805,787	116,457	446,370	1,368,614
1932	738,179	97,793	447,600	1,283,572
1933	618,066	88,856	424,984	1,131,906
1934	452,911	64,254	421,666	938,831
1935	419,484	56,160	373,431	849,075
1936	401,147	62,574	402,180	865,901
1937	430,365	70,080	406,003	906,448
1938	431,795	74,469	424,728	930,992
1939	435,047	74,732	445,095	954,874
1940	448,837	79,683	524,606	1,053,126
1941	431,753	86,236	498,882	1,016,871
1942	389,910	79,645	490,305	959,860
1943	377,127	77,883	545,324	1,000,334
1944	369,123	75,356	557,147	1,001,626
1945	363,761	74,608	538,442	976,811
1946	411,150	86,344	523,319	1,020,813
1947	806,314	241,083	508,518	1,555,915

Note (A) 7 Months.

[Testimony of WILLIAM A. LUSK.]

Q. I take it that these calculations that appear in Statement 9 of Exhibit 167 were reached on the same basis of the calculations on Statement 9, Exhibit 164?

A. Yes, sir, the same principle was followed throughout both exhibits.

Q. Of course, Mr. Lusk, the company is not in fact oper-

ating on the basis as indicated in this cost exhibit. They are not so segregating the items on their books are they?

A. They are segregated into certain proportions of the operating expenses divided between the systems; they segregate taxes by systems; they segregate bonds between two systems; they segregate notes and other evidences of debt between the two systems.

Q. The company is not in fact presently limiting its sale to resale customers?

A. The Canadian River Gas Company?

Q. Yes.

A. The Canadian River Gas Company doesn't make any distinction between resale customers and direct sale customers.

Q. And it doesn't make any sales at all to direct industrial?

A. Not Canadian River Gas Company, no.

Q. It makes all of its sales to—let's see. It is the Colorado Interstate Gas Company, the Amarillo Oil Company—

A. Yes.

Q. And who are the others?

A. Well, the Amarillo Oil Company is divided into several contracts and the Colorado Interstate, and the Clayton Gas Company.

Q. That is right.

A. The Canadian River Gas Company wholesale gas.

Q. Their contracts are in evidence in this proceeding. The main one, of course, we are concerned with is the contract in Exhibit 16.

A. Yes, sir.

Q. Under the terms of which, particularly Paragraph or Section 10, you have arrived at these cost figures that appear in Exhibit 164 and you have related them to resale only in Exhibit 167?

A. That is correct.

Q. But in so far as the Canadian River Gas Company is concerned, it doesn't now nor has it in the past endeavored to limit its sales to resale gas only, has it?

A. No, sir, there is no distinction of gas sales in the Canadian River Gas Company and has not been any since the company commenced operation.

Q. Nor is there any contemplated as far as you know?

A. As far as I know, no.

(Vol. XLVI, pp. 6369-6371.)

27. Amortization and Depreciation.

The company's witness Lusk testified that both companies set out to recover their investment or liquidate the indebtedness, incurred in making the investment, within the twenty-year project term. First testifying in respect to Canadian's situation and in connection with his Exhibit 91 entitled, "Canadian River Gas Company, Operating Costs as Adjusted, 1928 to 1939 Inclusive" (Vol. XIX, p. 2612), he referred to the contract between the two companies (Exhibit 16) whereby Canadian was to sell gas to Colorado Interstate at "cost" and the provision that Canadian's "cost" was to include the amortization within the project term of all of its investment or the liquidation of all of its debt incurred in making investment in property used in the project. He stated that Canadian opened up its books and kept them so as to show these contract "costs" and added, "Accordingly, such system of accounts does not conform and does not purport to conform to any classification of costs in a strict accounting sense." (Vol. XIX, p. 2613). He then went on to explain that neither company in his opinion being subject to regulation, they set up depreciation and amortization accounts on their books only for the purpose of recovering their investment or liquidating their debt, incurred in making their investment, within the project term and in order to get income tax deductions. Both companies employed a rate of 5% based on a twenty-year project life for all long-lived items of property in the beginning, but because of controversy with the Federal Income Tax Department they had revised their rates (Vol. XIX, pp. 2618, 2641). As a result of this controversy with the Internal Revenue Department, the company compromised by accepting for tax purposes a twenty-five year life basis on long-lived items and made it effective January 1, 1931 (p. 2640). On cross examination he was asked:

"Q. And what had the company set up on its books before that time?

"A. The company originally started out to depreci-

ate all of its depletable property on a 20-year life basis, five per cent.

"Q. And what was the company's reason for setting them up on a 20-year life basis?

"A. It was the life of the contract." (p. 2640.)

Following that the company set up depreciation on its books on the new basis so that its books would reflect "income properly for tax purposes." (pp. 2641-42.) On direct examination, his attention was called to the terms of the contract between Canadian River and Colorado Interstate under which the sale of gas was to be made at cost, and he was asked:

"Q. I notice an item of income taxes in this statement. Will you explain how the company might have income subject to income tax under this character of contract?

"A. Well, it all came about with the rulings of The Internal Revenue Department that certain depreciation was not allowable. Therefore, the company was assessed amounts of income taxes from approximately 1931 right down to 1939.

"Q. That is to say that there is a difference between the amortizations under the contract and the amortizations, broadly speaking, that are allowed by the Bureau of Internal Revenue for income tax purposes?

"A. Well, the Bureau of Internal Revenue wouldn't allow amortization of debt to be included in amortization under any other form, under any circumstances." (pp. 2618, 2619.)

Lusk's testimony with respect to each company's original charge-off of long-lived items at a rate of 5% per annum on a twenty-year project basis, in order to recover the investment or liquidate the debt and for tax purposes, and the subsequent modifications made by the companies as a result of income tax controversies, can be better understood by including at this point a statement of these several rates used by each company, as taken off the books of the companies by the Commission's witness Kenneth L. Smith in his Exhibits 174 and 176, more fully abstracted hereafter. From page 6 of Smith's Exhibit 174, "Annual and Accrued Depreciation of Gas Plant Accounts—Colorado Interstate Gas Company," the following is taken:

Description	Bases of Accruals				
	10/1/28 to 6/30/31	7/1/31 to 4/30/36	5/1/36 to 12/31/37	Year 1938	Year 1939
Transmission rights of way	5%	0%	2.5%	2.5%	3.5%
Transmission line equipment	5	4	4	3.5	3.5
Compressing system structures	5	7.5	7.5	3.5	3.5
Compressing system equipment	5	4	4	3.5	3.5
Other compressing system structures	5	7.5	7.5	3.5	3.5
Other compressing system equipment		4	4	3.5	3.5
Other transmission system structures	5	7.5	7.5	3.5	3.5
Other transmission system equipment	5	4	4	3.5	3.5
Telephone system	5	4	4	3.5	3.5
Measuring system structures	5	7.5	7.5	3.5	3.5
Measuring system equipment	5	4	4	3.5	3.5
Other measuring system equipment		4	4	3.5	3.5
Measuring system—meters	4				
Other general structures	5	7.5			
Office furniture and equipment	5 & 20	10	10	10	10
Stores equipment	5	10			
Shop equipment	5	10			
Garage equipment	33 1/3	25	25	25	Estimated
Tools and equipment	5	10	10	10	10
Other general equipment	5	4			
Entrance rights of way	5	4	4	3.5	3.5
Other undistributed fixed capital	5	4	4	3.5	3.5
Law expenditures during construction	5	4	4	3.5	3.5
Interest during construction	5	4	4	3.5	3.5
Depreciation and adjustments	5	4			

For Canadian River, a similar statement is taken from page 11 of Exhibit 176.

Canadian River Gas Company.

Schedule of Company Depreciation and Amortization
Rates from Inception to December 31, 1939.

Particulars	Periods and Effective Rates		
	1928 1929 & 1930	1931 through 1935	1931 through 1939
Production System			
Tangible Gas Well Equipment.....	10.00%	10.00%	25 Years
Drilling and Cleaning Equipment.....	25.00	25.00	25.00%
Field Lines			
Right of Way.....	5.00	5.00	25 Years
Construction.....	5.00	5.00	25 Years
Equipment.....	5.00	5.00	25 Years
Other Field Facilities			
Field Measuring Station Structures.....	5.00	5.00	25 Years
Field Measuring Station Equipment.....	5.00	5.00	25 Years
Field Compressor Station Structures.....		5.00	25 Years
Field Compressor Station Equipment.....		5.00	25 Years
Gasoline Investment			
Rights of Way.....	5.00	5.00	25 Years
Structures.....	5.00	5.00	25 Years
Equipment.....	8.33	8.33	8.33%
Delivery Line.....	5.00	5.00	25 Years
Loading Rack.....	8.33	8.33	8.33%
Transmission System			
Mains and Laterals			
Rights of Way.....	5.00	5.00	25 Years
Equipment.....	5.00	5.00	25 Years
Dehydration Plant			
Structures.....			25 Years
Equipment.....			25 Years
Main Compressor Station			
Structures.....	5.00	5.00	25 Years
Equipment.....	5.00	5.00	25 Years
Measuring Stations			
Structures.....	5.00	5.00	25 Years
Equipment.....	5.00	5.00	25 Years

Particulars (continued)	Periods and Effective Rates		
	1928 1929 & 1930	1931 through 1935	1931 through 1939
Bivins Camp Investment			
Structures	5.00	5.00	25 Years
Equipment	5.00	5.00	25 Years
Undistributed Fixed Capital	5.00	5.00	25 Years
General Property			
Office Structures	5.00	5.00	25 Years
Other Structures	5.00	5.00	25 Years
General Office Equipment	10.00	10.00	10.00%
General Store Equipment	5.00	5.00	25 Years
Telephone System	5.00	5.00	25 Years
General Tools and Implements	10.00	10.00	12.50%
Other General Equipment	5.00	5.00	25 Years
General Garage Equipment (Autos and Trucks)	33.33	33.33	33.33%

Lusk, on being cross-examined with respect to his Exhibit 170, as hereinafter abstracted, again explained that the changes in Colorado Interstate's rates and the conformation of its books to those compromise rates, as agreed upon with the Bureau of Internal Revenue, was made for such tax purposes in the same manner as was done by Canadian (Vol. XLVIII, pp. 6635-37). And the reserves now shown on Colorado Interstate's books for depreciation of physical property (\$4,994,352.35 balance as of December 31, 1939; Exhibit 174, p. 21) was the result of accruals at these compromise tax rates (Vol. XIX, pp. 2640-42 and Vol. XLVIII, pp. 6634-35). Lusk also testified that its gas purchase and sales contracts had been amortized by Colorado Interstate so as to recover the investment therein within the project term. The reserves shown on the books for such amortization have been summarized by the Commission's witness Kenneth L. Smith on page 8 of his Exhibit 174, as follows:

Particulars	Total	Contracts for Purchase and Sale of Gas	City of Colorado Springs, Colo.
Balance included in plant account at December 31, 1939, per books	\$2,589,607.84	\$2,352,941.17	\$236,666.67
Amortization rate (Note 1)		5%	5.869%
Annual amortization as reclassified; (Note 2)			
Year 1939.....	\$ 131,536.56	\$ 117,647.04	\$ 13,889.52
Year 1938.....	131,536.56	117,647.04	13,889.52
Year 1937.....	131,536.56	117,647.04	13,889.52
Year 1936.....	131,536.56	117,647.04	13,889.52
Year 1935.....	131,536.56	117,647.04	13,889.52
Year 1934.....	131,536.56	117,647.04	13,889.52
Year 1933.....	131,536.56	117,647.04	13,889.52
Year 1932.....	131,672.62	117,647.04	14,025.58
Year 1931.....	124,999.98	117,647.04	7,352.94
Year 1930.....	117,647.04	117,647.04	
Year 1929.....	117,647.06	117,647.06	
Six months ended December 31, 1928.....	58,823.53	58,823.53	
Totals	\$1,471,546.15	\$1,352,940.99	\$118,605.16

To this statement the witness Smith appended the following notes found on page 9 of his Exhibit 174:

"Notes:

(1) The amortization rates used by the Respondent have been designed to write off the recorded costs of, or the values placed upon, the contracts over their respective lives. The contracts for the purchase and sale of gas are being amortized on the books over the 20-year period from July 1, 1928 to June 30, 1948, the expiration date of the contracts. The recorded cost of the City of Colorado Springs, Colorado, contract is being amortized on the books from July 1, 1931 to June 19, 1948.

(2) Amortization for the six months ended December 31, 1928 and for the year 1929 was charged to surplus on the Respondent's books in the years 1931 and 1930, respectively. These charges were transferred to the income accounts of the years to which applicable on Examiner's entry No. R-137, which is included in the exhibit relating to the income account."

As to the "actual" or "observed" depreciation existing in the physical property in distinction to the book reserves just mentioned, the witness Rhodes testified that a field inspection of the Denver Line properties of Colorado Interstate showed as of December 31, 1938 the per cent accumulated depreciation and condition of the properties as follows: (Exhibit 70, p. 32.)

F.P.C. Acct. No.	Description	Accumulated Depreciation % Per Cent	Condition of Properties Per Cent
Natural Gas Transmission Plant			
351-1	Land	0.0%	100.0%
351-2	Land Rights (Rights of Way)	00.0	100.0
352-1	Pumping Station Structures	14.0	86.0
352-2	Measuring and Regulating Station Structures	13.0	87.0
352-3	Other Transmission System Structures	13.0	87.0
353	Mains	5.0	95.0
354-1	Pumping Station Equipment	12.0	88.0
354-2	Measuring and Regulating Station Equipment	10.0	90.0
General Plant			
372	Office Furniture & Equip- ment	20.0	80.0
373	Transportation Equipment	49.0	51.0
377	Tools and Work Equipment	20.0	80.0
378	Communication Equipment	16.0	84.0
	Working Capital		100.0

On page 12 of his Exhibit 70, Rhodes stated:

"The depreciation accumulated in the property was determined from observations of physical conditions that ultimately lead to the retirement of items of property. Depreciation as determined is separate and distinct from accruals for amortization that may be considered necessary on account of the possible termination of or major changes in Colorado Interstate's business."

The respondent's witness, H. E. Roberts, an engineer of the firm of FB&D "specializing in the valuation of industrial and public utility properties" (Vol. XCIV, p. 14413) and whose qualifications as such engineer are set forth (pp. 14413, et seq.) applied the foregoing percentages of accumulated depreciation to the original cost of the Denver Line properties of Colorado Interstate as shown in his Exhibit 283 and to the equivalent original cost of a Denver pipe line for resale gas alone in his Exhibit 284. He worked with Mr. Rhodes in making the estimate of reproduction cost, and less depreciation, of the properties of Colorado Interstate and those of Canadian River. He began that work in March 1939 and continued with it until the hearing in this case began (Vol. XCIV, pp. 14415-16; Vol. XCVII, pp. 15023-29). He worked on the problem of depreciation and the condition of the property (Vol. XCIV, p. 14416).

In his Exhibit 283, he took the original cost of Colorado Interstate's property as shown in Exhibit 67 by Mr. Lusk and rearranged the items only for the purpose of having them conform to the classification of the several items of property and their per cent condition of depreciation as shown in Mr. Rhodes' Exhibit 70. This was done in order to have an exact comparison or identity of the property but did not affect the total original cost as shown in Mr. Lusk's Exhibit 67 (Vol. XCVII, pp. 15004-05). Applying the percentages of accumulated depreciation, he arrived at the following: (Exhibit 283, Statement 1.)

Colorado Interstate Gas Company.
Accumulated Depreciation of Original Cost of Physical Properties of the Denver
Line as of December 31, 1938.
Summary by Accounts.

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Item No.	Account No. (Exch. No. 70)	Account No. (Company)	Description	(1)	(2)	(3)	(4)	(5)	Accumulated Depreciation	
									Per Cent	Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
		Transmission System								
1	351-1	218	Land			\$ 19,949			.....	.....
2	351-2	220; 219	Rights of Way and Leasehold			174,391			.....	.....
3	352-1	221; 223								
4	354-1	224; 227	Compressing Station Structures			495,235			14.0%	\$ 69,333
5	353	224; 227	Compressing Station Equipment			1,102,031			12.0	132,244
6	352-2	226	Transmission Line Equipment			8,636,798			5.0	431,840
7	354-2	222; 227	Measuring Station Structures			54,627			13.0	7,102
8	352-3	225	Measuring Station Equipment			88,412			10.0	8,841
		223; 227	Other Transmission System Structures and Equipment			68,408			13.0	8,893
9			Total Transmission System			\$10,639,851				\$658,253
		General Property								
10	378	255	Telephone System			147,106			16.0	23,537
11	372	249	Office Equipment			30,012			20.0	6,002
12	373	253	Garage Equipment			62,521			49.0	30,635
13	377	256	Tools and Implements			36,956			20.0	7,391
14		Total Direct Cost				\$10,916,446				\$725,818
15		General Construction Costs				1,136,200				37,773
16		Total Original Cost				\$12,052,646				\$763,591

Note: (A) As shown on Exhibit No. 67.
Adjusted as shown on Statement No. 3 herein.

Following the same method in his Exhibit 284 he arrived at the following for a Denver pipe line for resale gas alone: (Exhibit 284, Statement 1.)

Colorado Interstate Gas Company.
Accumulated Depreciation of the Equivalent Original Cost of a Denver Pipe
Line for Resale Gas Alone, as of December 31, 1938.
Summary by Accounts.

Item No.	Account No. (Exch. No. 70)	Account No. (Company)	Description (4)	Original Cost (A) (5)	Accumulated Depreciation	
					Per Cent (6)	Amount (7)
(1)	(2)	(3)				
		Transmission System				
1	351-1	218	Land	\$ 19,873	-----	-----
2	351-2	220; 219	Rights of Way and Leaseholds	164,195	-----	-----
3	352-1	221; 223			-----	-----
		224; 227				
4	354-1	224; 227	Compressing Station Structures	495,235	14.0%	\$ 69,333
5	353	224; 227	Compressing Station Equipment	1,102,032	12.0	132,244
6	352-2	226	Transmission Line Equipment	7,469,294	5.0	373,465
7	354-2	222; 227	Measuring Station Structures	48,240	13.0	6,271
8	352-3	225	Measuring Station Equipment	61,126	10.0	6,113
		223; 227	Other Transmission System Structures and Equipment	68,408	13.0	8,893
9			Total Transmission System	\$ 9,428,403		\$596,319
		General Property				
0	378	255	Telephone System	141,092	16.0	22,575
1	372	249	Office Equipment	30,006	20.0	6,001
2	373	253	Garage Equipment	62,521	49.0	30,635
3	377	256	Tools and Implements	36,956	20.0	7,391
4		Total Direct Cost		\$ 9,698,978		\$662,921
5		General Construction Cost		1,038,595		35,494
6		Total Original Cost		\$10,737,573		\$698,415

Note: (A) As shown on Exhibit No. 134.

Adjusted as shown on Statement No. 2 herein.

On being cross-examined with respect to these two exhibits as well as with respect to analogous Exhibits 272, 273, 274 and 275 of Canadian, he testified as follows: In his Exhibits 283 and 284, he is relating the percentages arrived at to the very property that he and Mr. Rhodes inspected (Vol. XCVII, p. 15036). He and Mr. Rhodes had a crew that worked under their supervision. He and Mr. Rhodes gave instructions as to the method of inspection and set up an organization with Mr. Smith in charge and their instructions were carried out, although neither he nor Mr. Rhodes personally inspected each item (p. 15039). In determining the "actual or existing depreciation", they did not take into consideration the life of the property or how long it had been in the ground or in place, but determined its per cent condition as disclosed by field inspection (p. 15045).

"The per cent condition as we have employed it, represents the extent to which the property has depreciated as compared with the total depreciation that would cause that property to be retired." (p. 15048.)

And his determination was made from observation of the physical condition of the property. The figures arrived at make no allowance for amortization of the property in any way for any cause (p. 15052). He and Mr. Rhodes approached the problem primarily as an engineering problem and both determined per cent condition or accumulated depreciation from physical inspections of the property (p. 15059). The per cent conditions of depreciation arrived at do not take into account or give effect to amortization of any kind (p. 15066). As to the percent condition of depreciation, he stated:

"We found it based upon what maintenance had been done, had taken place." (p. 15075.)

No depreciation was taken with respect to lands and right of ways, because land does not depreciate. If the property is abandoned or ceases as an operating property, the right of way has no value (p. 15109). Determination of per cent condition of actual or observed depreciation did not require, and he did not make, any determination of service lives (p. 15110). Actual depreciation can't be determined on the basis of service lives.

"I think the proper method is to go out in the field and inspect it as we have. I feel we have the amount of depreciation that exists in this property.

"Q. Regardless of what the company may record on its books?

"A. That is right." (pp. 15144-45.)

As to retirements, he said:

"We didn't estimate what the retirements would be in the future as we were inspecting the property that existed at that date." (p. 15117.)

As to the possible salvage value of any of Colorado Interstate's properties, when its business ceased for any cause, the Commission offered the statement of its engineer Hill, who stated that at the end of the service lives of the several items of such property determined by him (Exhibit 178, p. 2, abstracted more fully hereinafter), such salvage would be "negligible." The respondent company presented evidence on salvage in its Exhibit 282, prepared jointly by the witnesses H. P. Taubman, W. D. Smith and E. M. Solow (Vol. XCVI, p. 14913). These same witnesses testified with respect to salvage in the case before the Commission involving Natural Gas Pipe Line Company of America and Texoma Natural Gas Company (Docket No. G-112). They fixed their salvage value as to such items as could be salvaged primarily as of January 1, 1956, but their testimony was to the effect that a great part of the property, and particularly the transmission line could never have any salvage value. Testifying, Mr. Solow said:

"There are certain items like pipe in the main lines that will cost so much more to be salvaged than to leave in place that they are abandoned in place. The figures that are included in circles represent the loss which would be incurred if they were taken up and scrapped. They were just left in place because there would be no sense in that operation." (p. 14912.)

Taking into consideration all factors, such property as could be salvaged was determined to have a value not in excess of \$131,019.95 for all of Colorado Interstate's property and investment.

The Commission did not offer any evidence as to salvage except the statement referred to above of its engineer Hill to the effect that after the fifty-year life assigned to the transmission line, and shorter lives assigned to other items of property by him, the salvage would be negligible.

The Commission's accountant Kenneth L. Smith, in his Exhibit 174 (Vol. XLIX, p. 6783) took the book accounts of the company both for depreciation and amortization and changed and recast them retroactively back to the beginning of the project in 1928.

As to the company's accounts for amortization of its contracts, which Smith called "amortization of franchises and contracts," he eliminated all such accounts from further consideration because it was his opinion that such contracts ought not to be part of the "original cost" or investment of the company for regulatory purposes (See his Entry 404, Exhibit 174). Following this elimination of amortization by Smith, the Commission's accountant Early in his Exhibit 140, abstracted supra, eliminated from the company's annual expense all annual requirements for amortization. On this account, Early eliminated \$131,536.56 for each of the years 1937, 1938 and 1939 and his "net utility income" was correspondingly increased for each of said years (Exhibit 140, pp. 18, 19 and 20).

As to depreciation Smith said:

"This report sets forth the annual and accrued depreciation of the gas plant accounts of Colorado Interstate Gas Company for the years 1928 to 1939, inclusive." (p. 6783.)

And again:

"The chief purpose of the entries is to adjust the annual provisions for depreciation and amortization expense and, concurrently, to adjust the reserve for depreciation so that it will properly reflect the depreciation legitimately accrued on gas plant." (p. 6786.)

And again:

"Schedule No. 6 is an analysis of the reserve for depreciation for gas plant in service, as adjusted, for the period beginning with the inception of the company in 1928, and ended December 31, 1939." (pp. 6790-91.)

Smith in this Exhibit 174 took the reserve for depreciation as shown by the books in the amount of \$4,994,352.35, balance as of December 31, 1939, and eliminated therefrom the amount of \$2,343,971.77, leaving an adjusted balance of \$2,650,380.58. The difference, he said, "consists chiefly of the variation in the provision for depreciation charged on the books and the amount of the provision as computed by the Examiner, based on the service life estimates of the Bureau of Engineering."

(Vol. XLIX, p. 6785.)

By Entry 402, he adjusted the reserve by a credit thereto of \$10,233.36 "to correct the respondent's accounting in the depreciation reserve for the retirement of the Clayton lateral line, measuring station and equipment sold to Canadian River Gas Company as of June 1, 1933."

Entry 403 reverses respondent's annual provision for depreciation. Following that action of Smith, the Commission's witness Early in his Exhibit 140 (pp. 18, 19, 20) abstracted supra, reduced the respondent's expenses for annual depreciation requirements to conform to Smith's action by the amount of \$236,021.37 in 1937; \$160,161.53 in 1938; and \$162,993.65 in 1939. These reductions in annual depreciation charges increased Early's "net utility income" for those years in corresponding amounts.

By Entry 405, Exhibit 174, Smith eliminates from the depreciation reserve account \$31,729.53. "The net amount of profit and loss on retirements which have been shown in the reclassified income statements as charges or credits to income."

By his Entry 406, Exhibit 174, he sets up a reserve for depreciation of gas plant in service as of December 31, 1939 in the amount of \$2,819,797.11, and in addition a reserve of \$3,663.18 of gas plant held for future use. This was done "to record the annual depreciation for gas plant in service based on the service lives estimated by the Bureau of Engineering."

By Entry 407, Exhibit 174, Smith removes from the reserve for depreciation of gas plant in service and charges to reserve for depreciation of gas plant held for future use \$1,319.04.

On cross-examination, he testified that he used the service lives furnished by the Commission's Bureau of Engineering and that they had fixed a fifty-year life for the transmission line (Vol. L, p. 6869). If the life of the field is fifty years, then he does not believe that the fifty-year life will provide an adequate reserve so far as the main transmission line is concerned except for one qualification, and that is, that any underestimate in one class might tend to be set off-set by an overestimate in another group or class of property (p. 6877).

"Q. What I have in mind is this: The principle that seems to underlie this question as it relates certainly to the natural gas property, is that your service lives are the number of years over which you accrue depreciation of physical property must be a lesser number of years than the number of years in which the supply of gas will be exhausted?

"A. I believe that is exactly right and I have taken great pains to find out and ascertain basically, relying upon the engineers on our staff that that was the situation; that we were not getting ourselves into a very embarrassing situation in that respect." (pp. 6878-79.)

He satisfied himself that the life of the field was longer than the service lives of fifty years fixed by the Commission's engineers (p. 6883). He did not mean to imply that the company's books were improperly kept (p. 6891). The assumption has been made by the Commission engineers that the project would continue as long as there was a supply of gas available without regard to the contracts with the customers of Colorado Interstate such as the Public Service contract which ends in 1948 (p. 6904).

The service lives of the physical properties of respondent are determined by the Commission's Bureau of Engineering as set forth in Exhibit 177 (witness Hill, Vol. L, p. 6960). The service lives were based primarily on the physical life but consideration was given to retirements because of inadequacies, obsolescence or requirements of public authorities. The probable life of the natural gas supply was taken into consideration and it was assumed that the company would be in business as long as a supply of natural gas was available, and that it would be in business beyond the

service lives of the properties. The net salvage value of the physical property on retirement for any cause was considered to be negligible. There is attached to the exhibit a statement of the service lives, which is fifty years for most of the transmission system; thirty to forty-eight years for structures; twenty to thirty-six years for various items of equipment; and four years for garage equipment; and twelve and one-half years for office equipment.

On cross-examination the witness Hill testified (Vol. LI, p. 7008) that the company kept its property in good repair and that the retirements did not amount to a great deal. The life of the field, he thought, would be longer than the service lives set (p. 7023). He realized that the life of the property for the purpose of accruing depreciation should be less than the number of years that the gas supply would be available, but he thought that somewhere from six to ten years beyond the fifty-year assumed physical life of the pipe line would be adequate to balance off any replacements that had been made prior to the expiration of fifty years (p. 7024). Thirty-six years had been assigned as the service life of compressors. The installation of compressors in the latter part of his sixty-year assumed life of the field would present a different problem for the purpose of accruing depreciation.

"Q. That is, you recognize that limitation of field life is a very positive and determining factor in your service lives?

"A. I think it is, yes, sir, although I think those compressor engines will last much longer than the composite life of each.

"Q. If in the future that field life basis were changed, then the service lives which you have given here might be revised either up or down depending upon what the change of conditions was, I take it?

"A. I think so," (Vol. LI, pp. 7025-26.)

Further Testimony of the Commission's WITNESS, SMITH.

Q. Mr. Smith, in connection with the preparation of this Exhibit 174 did you also prepare a written statement setting forth the main items briefly?

A. Yes, I have.

Q. Will you please read that statement into the record?

A. "This report sets forth the annual and accrued depreciation of the gas plant accounts of Colorado Interstate Gas Company for the years 1928 to 1939, inclusive. By account classification, it shows annual accruals of depreciation based on service life estimates furnished by the Bureau of Engineering of the Federal Power Commission, and also original cost of property retired, salvage on retirements, and other credits as adjusted by this and other Examiners.

"A comparison of the Reserve for Depreciation of Gas Plant in Service per books and that Reserve as adjusted by the Examiner is as follows:"

Mr. Lange: May that table be copied into the record, Mr. Examiner?

The Trial Examiner: Yes.

(As directed by the Trial Examiner, the following table was copied into the record:)

Components of Reserve for Depreciation 1928-1939.

	As Adjusted By Examiner (Schedule No. 1) Column 3	Per Books (Schedule No. 5)	Difference
Provision for Depreciation			
Charged to Expense	\$2,819,797.11	\$5,350,774.06	\$2,530,976.95
Charged to Plant Account	13,675.74	13,675.74	
Retirements			
Original Costs			
Retired	(281,705.03)	(280,934.47)	770.56
Salvage	98,039.24	127,282.88	29,243.64
Adjustments of prior Years' Depreciation through Surplus	....	(219,404.79)	(219,404.79)
Profit and loss on Retirements (net)	....	2,387.17	2,387.17
Miscellaneous	573.52	571.76	(1.76)
Balance in the Reserve, December 31, 1939			
	\$2,650,380.58	\$4,994,352.35	\$2,343,971.77

The Witness: "The great difference between the balance shown on the books as of December 31, 1939 (\$4,994,352.35) and the accrued depreciation as of that date as computed by the Examiner (\$2,650,380.58) consists chiefly of the variation in the Provision for Depreciation charged on the books and the amount of the Provision as computed by the Examiner, based on the service life estimates of the Bureau of Engineering. This the tabulation above clearly indicates.

"The Examiner's adjustments were effected through the medium of eleven journal entries, eight of which, Entries Nos. 400 to 407, inclusive, were made by this Examiner and three of which, Entries Nos. 204, 213, and 215, were made by another Examiner."

By Mr. Lange:

Q. Right there, who was the other Examiner, Mr. Smith?

A. That would be Examiner Schutte in his report on the gas plant account of Colorado Interstate Gas Company. I believe that was Exhibit 139.

Q. 139, yes. All right, go ahead.

A. "The entries made by this Examiner are contained in this report and the entries by another Examiner in a report entitled 'Gas Plant Accounts and Examiner's Adjustments.' The entries are principally of two kinds: those that affect only the reserve for depreciation and serve to adjust the amounts of the several elements of the reserve, which entries are denoted by the letter 'R' prefixed to the numeral, and those entries that involve not only the reserve for depreciation, but one or more other accounts as well.

"In addition, there is one adjusting entry (No. 404) which reverses the company's amortization of franchises and contracts. The chief purpose of the entries is to adjust the annual provisions for depreciation and amortization expense and, concurrently, to adjust the reserve for depreciation so that it will properly reflect the depreciation legitimately accrued on gas plant.

"The company's reserve for depreciation and depreciation expense accounts are incorrect and require adjustment for several reasons:

"(a) the annual depreciation rates used by the company have varied (cf. Summary attached to Adjusting Entry No. 403), (b) accrued depreciation has been restated by the company by entries made directly to surplus, (c) the revised annual depreciation rates made effective by the company as of January 1, 1938, were adopted by it without its bringing accrued depreciation into conformity with them, and (d) during certain periods retirement losses were charged to the reserve for depreciation and in other periods such items were charged to an income account.

"Besides this the fact that plant account balances as shown on the company's books have been adjusted by an Examiner of Accounts, and that service life estimates different than the company's have been developed by the Bureau of Engineering also had to be considered. On the assumption that these adjustments to plant account and

these estimates of service life were correct, the company's reserve for depreciation and depreciation expense accounts needed adjustment on this score. The explanation given as a part of each entry states the specific reason and the basis for each adjustment.

"Following the journal entries, on Page 14, appears Schedule No. 1. This tabulation contains the information described in the first paragraph of this text except that it gives this information by major functional groups of plant rather than by accounts. It shows gas plant in service divided into three classifications, i. e., transmission system, distribution system, and general and undistributed fixed capital; it also shows gas plant held for future use. Each of the three classifications of gas plant in service shown in Schedule No. 1 is supported by a schedule which gives information of the kind shown on Schedule No. 1, by subclassification.

"Schedules Nos. 2 and 3 each show four subclassifications of transmission system and distribution system plant, respectively, and Schedule No. 4 shows general and undistributed fixed capital broken down into four subclassifications. In turn, Schedule No. 2 is supported by Schedules Nos. 2A, 2B and 2C, which respectively classify main lines and laterals into one main line and sixteen laterals, and compressing stations and other structures and equipment into structures, equipment, and several other subclassifications.

"The information given on the first five lines of Schedules Nos. 1 to 4, inclusive, and their subschedules are explainable as follows:

"Line No. 1, original charges per books, represents the cost of the company's initial construction plus subsequent gross additions, exclusive of construction work in progress and gas plant adjustments. In most instances, therefore, the amounts on Line No. 1 may be arrived at by adding to the December 31, 1939 balance per books all retirements from the inception of the company to December 31, 1939, exclusive of construction work in progress and gas plant adjustments.

"Line No. 2, Examiner's Adjustments, represents the net adjustments to these plant accounts made by the Examiner

who prepared the report entitled 'Gas Plant Accounts and Examiner's Adjustments.'

"Line No. 3 is the sum of Lines Nos. 1 and 2 and represents the adjusted total cost subject to depreciation.

"Line No. 4 represents total retirements from the inception of the company to December 31, 1939, as adjusted.

"Line No. 5 is the difference between Lines Nos. 3 and 4 and represents the adjusted balance in the plant accounts as at December 31, 1939. The amounts on Line No. 5 agree with the adjusted totals shown in Column 7 of Schedule No. 1 of the report entitled 'Gas Plant Accounts and Examiner's Adjustments.'

"The depreciation was computed annually based on the adjusted balances in each plant account. In a majority of instances the appropriate annual depreciation rate was applied to the adjusted plant account balance at the beginning of the year. If a substantial item of plant was added during the year, six months' depreciation was as a rule computed on that item in the year acquired. In the case of compressing stations, however, each station was depreciated from the approximate date placed in operation. All minor plant additions and retirements were, for the purposes of this study, ignored for the year in which they occurred. They were, of course, taken into account in succeeding years.

"The depreciation rates used in these computations are, in general, based on service life estimates furnished to the Division of Accounts by the Bureau of Engineering.

"With respect to two lateral lines and measuring stations which were disposed of in 1939, costs adjusted for salvage were written off or depreciated on the basis of the actual periods of service while owned by Colorado Interstate Gas Company, rather than on the basis of any estimate of the total service life of the property.

"The computation of depreciation on garage equipment, which is included in Schedule No. 4, was handled in a slightly but not essentially different manner than other depreciation computations. The total cost of the autos and trucks purchased in any one year was considered as a group, and after that group cost had been fully depreci-

ated, which was usually about four years after the year of purchase, no further depreciation was accrued on that group.

"It will be noted that there were no charges to the reserve for depreciation for costs of removal. The company consistently charged these costs to expense. We have made no adjustment for them because they could not be determined without an unjustifiable amount of detailed analyses of payrolls, trucking tickets, and other records. Approximately 75 per cent of retirements were of such a nature that they involved no removal costs.

"Schedule No. 5 is an analysis of the reserve for depreciation for gas plant in service, per books, for the period begun with the inception of the company in 1928, and ended December 31, 1939, and shows the debits and credits to the reserve classified by years in the manner set forth in the tabulation in this text, above.

"Schedule No. 6 is an analysis of the reserve for depreciation for gas plant in service, as adjusted, for the period beginning with the inception of the company in 1928, and ended December 31, 1939. The classifications given in this schedule are the same as the major classifications shown in Schedule No. 1 and show the debits and credits to the reserve classified by years in the manner set forth in the tabulation in this text, above.

"The minor difference in the amounts as classified, as shown by the tabulation in the text and by Schedule No. 6, is caused by a variation in the classification of \$2,344.14. In Schedule No. 6 this amount is classified as a miscellaneous credit, but in the tabulation in the text it is eliminated as gas plant held for future use (cf. Schedule No. 1).

"Schedule No. 7 gives the retirements of plant costs charged to reserve for depreciation, per books and as adjusted, providing a recapitulation of the Examiner's Adjusting entries that affect retirements. It shows the retirements as adjusted by years by plant accounts; it supports Line 4 of Schedule No. 1.

"Schedule No. 8 sets forth the salvage credited to the reserve for depreciation in the same manner and in the

same detail that retirement data is tabulated in Schedule No. 7. It supports Line 21 of Schedule No. 1."

(Vol. XLIX, pp. 6783-6791.)

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Cross Examination.

By Mr. Dougherty:

Q. Mr. Smith, I take it that you assume no responsibility for the service life estimates which were furnished by the Bureau of Engineering.

A. As to supporting them, no I do not.

Q. You just accepted them as they gave them to you?

A. I have accepted them and I have no reason to consider them unreasonable to the best of my knowledge.

Q. Well, a matter of determining service life is primarily an engineering matter rather than an accounting matter.

A. That is true.

(Vol. XLIX, pp. 6792-6793.)

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Q. Do you have when you get your service life the element included in there of depreciation which I think is referred to as "functional"?

A. It is my understanding that the engineers have carefully considered and have arrived at conclusions in arriving at functional depreciation. It is not a part of my study.

Q. Well, do you recognize that in a business dealing with an exhausting resource or asset, such as a coal mine or gold mine or oil well, or natural gas company, that you have a problem of the ending of that operation for reasons other than the mere ending of service life for physical units of property?

A. One in accounting frequently comes into contact with the fact that that probably exists. For example, a coal mining company often pays dividends out of its depletion reserves and I understand that it is legal for it to do that, and you see evidence of those things, but as far as taking those factors into consideration and setting a rate of depreciation that is to be accrued, of course, that is purely an engineering problem.

Q. Assuming that you were the accounting officer for a coal mine and you had the various physical facilities, the tracks, the tipples, and whatever other machinery they use around a coal mine, and the engineer came in and said to you that the service life of that property was fifty years, would you consider it any part of your duty to inquire of him whether or not the economic life of the coal mine would be fifty years, that is, whether the coal mine would last that long?

A. You mean, in other words, if its reserves would be exhausted before that time?

Q. Yes, wouldn't it be a part of the responsibility of the accounting officer to find out whether the reserves would be exhausted before fifty years' time?

A. Of course, he couldn't make that determination up on his own account. You mean he would have to rely upon his expert—

Q. All right, but isn't it part of his duties to make inquiry and consider it, and if not, to have it considered?

A. Of course, as an accounting officer I think his responsibilities would end with the authority and responsibility that had been delegated to him by the management of the company or by the directors in any particular instance.

If the management of the company had instructed the accounting officer to have used the service lives and delegated the responsibility of setting proper service lives forth to the engineers for the coal mining company, I am not so certain but what the accounting officer would have discharged his real responsibility.

Now, if he had any reason to doubt the competency of the engineers who gave the estimates or felt that it was necessary to inquire into their procedure, I think it would be a responsibility for him to do that because he would want to see some support, some sort of a statement from the engineers as to their methods, but he couldn't pass upon whether that method was technically sound.

Maybe I have gone all around your question and haven't wound up at the exact point you wanted me to, but if this accounting officer had knowledge of the fact and knew it either through reliable information that he had obtained, or otherwise, information upon which he could rely, and

he knew the exhaustion of those resources would take place before the service lives set for the physical property, then obviously he would not be using good accounting practice not to go into it further.

Q. My question is this, that the accounting officer is the principal and responsible accounting officer of the company; that he has been told by the president that he can use all of the engineering figures made by the engineers but that he was going to hold you responsible. The next step was that you called in your engineers who gave you a service life. Don't you feel that it is the responsibility of that officer to find out whether the engineers have considered the exhaustion of the coal and what consideration they have given to it even though you don't know a thing about it?

A. Yes, I believe that would certainly be a higher class practice than to ignore or overlook it.

Q. Isn't the first thing an accounting officer would do would be to check with the engineer as to the relationship of his service life to your estimates of the exhaustion of this coal mine? Isn't that one of the first questions you would ask?

A. I think that he would have to recognize that relationship and he ought to be satisfied on that point but he couldn't make the determination.

Q. No, but I say this: Wouldn't he have to say it had been made and given consideration?

A. I believe in order to follow up his responsibility as chief accounting officer on a high plane from a professional and ethical standpoint, he would have to make some investigation that he would have to rely upon in forming his opinion as to the estimate by technical experts in that field.

Q. Now, do you recognize in such a case as a coal mine that by the time that the exhaustions of the coal had taken place there should have been accrued a depreciation reserve sufficient to retire all of the physical property used in connection with that coal mine less salvage?

A. That is correct.

Let me restate it to you to make sure that we are on the right track.

A. By the time the exhaustion of the mineral deposit is made there must also be enough money in the depreciation reserve to retire the equipment less salvage, less net salvage?

Q. That is right. That is my problem.

A. Yes, that is exactly right and that is in accordance with sound and accepted accounting practices.

Q. That would be true even if the physical service life of the equipment were a greater number of years than the period of life of the mineral deposits, that is, to put it specifically, let's assume that the physical service life of the equipment was fifty years for each piece of equipment and that the exhaustion of the resources would take place in forty years; you would have to base your depreciation on forty years rather than on fifty years?

A. Yes, that is correct.

Q. Now, in connection with that problem, do you know whether in this case—that is, the current case at hand—the engineers based their 50-year life of transmission line pipe of Colorado Interstate Gas Company on the physical factors or did they give any consideration to the exhaustion of the source of supply of gas which goes through that line?

A. They, as I understand it, did give consideration to the exhaustion of the source of supply of the gas which moves through that line. I don't know the particulars of that but I do know that it was considered and that the source of supply and the availability studies do have detail from an engineering standpoint in such a way there was no flaw in the service lives they adopted.

That is my understanding of the situation, that is, the understanding upon which I have proceeded.

Q. You say there is no flaw in it; is that your own judgment?

A. No, that is my understanding, that there is no flaw in it.

Q. That would apply with respect to that part of the Canadian River Gas Company's property from Bivins north, the same 50-year life as assigned, because you have used two per cent in the exhibit on transmission line?

A. It seems to me that the situation there is entirely comparable to the main line of the Colorado Interstate Gas Company.

Q. Do you know whether or not the fifty years is the life of the field or is the physical life of the pipe, or is it a composite figure that has been arrived at after giving consideration to both the physical and functional factors as involved in this matter?

A. It is my understanding the physical and functional factors have all been given proper consideration from an engineering standpoint.

Q. I assume that the period of exhaustion of the gas reserves would not be less than fifty years, which is the service life used; that is, isn't that a fair assumption to make?

A. I believe from everything I have said here and the evidence that is in my exhibit, you could fairly conclude that.

Q. Now, in the method you used, Mr. Smith, where you have a fixed service life which we estimate as—which we might say is conterminous with the period of life, isn't there this problem that will arise:

Let's assume that—withdraw that.

I notice in connection with that—I think it is on Page 16 regarding—

Mr. Lange: What exhibit?

Mr. Dougherty: Exhibit No. 174.

Q. (Continuing) —of the La Junta lateral, which is Column 13. That happens to be $2\frac{1}{2}$ per cent, for which reasons I assume it is a shorter service life, but the principle I have in mind will be illustrated irrespective of the service life if the service life is the same number of years as the period of exhaustion in the field.

I notice that you show retirement down in Line 20 in the amount of \$4,000. That, as I understand it, represents five or six thousand feet of pipe, is that your understanding?

A. Well, I would have to get the working papers out to refresh my recollection upon that.

Q. Let's assume it is, and if it turns out later it is wrong, you can correct me.

That pipe, as I understand it, was removed.

Where would the schedule show when it was retired, Mr. Smith? on what page?

A. I don't know whether I can find it or not.

Q. I thought there was one schedule that showed retirements by the years.

A. Yes, I think it is there.

Q. Is that Page 23?

A. I don't believe that item will show up on Page 23.

Q. It doesn't show up?

A. No, sir. I don't think you can identify that particular item; that is, as to the exact year in this exhibit.

Q. Well, it took place some period ago; it doesn't make much difference as to the exact year, but that pipe was retired. Do you know that replacements were installed?

A. If that is a retirement of pipe, why, I think it follows that there would have been a replacement.

Q. Let's assume for the point I want to discuss with you—

A. It is just a theoretical question, anyhow?

Q. No, this actually happened, because I think, as I understand it, at the end of the period of service life here, to the extent that we have made replacements, you will never be able to depreciate them one hundred per cent as you have computed them, and that is what I want to discuss with you.

If that replacement is made, say, at the end of ten years, there would have been accrued against that particular cost of property twenty-five per cent, two and one-half per cent per year, ten years, being twenty-five per cent, isn't that correct?

A. If you want to make an allocation, that is what you would have to assume in your allocation.

Q. To the extent of whether you allocate it or not, to the extent that number of dollars went into the plant account and accrued at 2-1/2 per cent per year against the whole plant account, there would have been 25 per cent against the original cost of that property which is now being retired and accrued into the reserve?

A. Of course, this is group retirement—

Q. I understand that, but I think it will work out the same when we get to the end.

A. I think so, too, but I just want to point out that under that method of depreciation accounting, you were not assuming that any particular piece of pipe had so many dollars accrued against it specifically. Do you see what I mean?

Q. Yes.

A. It is a process of allocation but probably that won't make any difference to the discussion we want to pursue.

Q. Now, that pipe having been retired, the original cost of it would be taken out of the plant account?

A. That is correct.

Q. Then the cost of replacement would be added to the plant account?

A. That is correct.

Q. And you would charge against the reserves the original cost of the pipe retired?

A. Less salvage.

Q. Now, as you go along year by year and have made replacements and have made retirements, suppose you come to the end of your service life period. Instances such as I have mentioned result, do they not, in your not having accrued at the end of your service life period enough depreciation to completely restore or repay the cost of all the property, including replacements which has been put into that line?

A. You are thinking of the Colorado Interstate Gas Company, we will say, as of June 30, 1978?

Q. Right.

A. And what you are saying is that under this method we followed here the depreciation reserve on that date can't possibly be equal—be as great as the original cost of the property on the books as of that date?

Q. It can't possibly be so if there have been any retirements or replacements?

A. In order for what I said to be true, we would have to assume there is a 50-year life on all of the property.

Q. Let's take main transmission line because I think we are in agreement on that, the main transmission line with fifty years' life. Isn't it correct that at the end of the 50-year period you couldn't possibly have accrued the complete original cost of that pipe line if during the 50-year period you made retirements and replacements and the reserve on

June 30, or June 1, whichever it would be, in 1978 could not possibly be the number of dollars that the original costs show?

A. I take it that you are assuming that there would have been no extraordinary losses written off through a special way or anything like that?

Q. That is right, just as I understand the Code of Accounts, in that two sections of pipe or more constitute a retirement unit, is that correct?

A. That is my understanding of the retirement units that are laid down in Appendix 1 of the Uniform System of Accounts for natural gas companies.

Q. As I understand it, every time Colorado Interstate Gas Company takes up or has to replace two or more continuous lengths of pipe, the retirement must be charged against the reserve and the new lengths of pipe must be put into capital?

A. That is my understanding.

Q. That is, we couldn't expense it; we couldn't charge it as maintenance?

A. Not two lengths or more.

Q. I assume from your treatment at the end of your 50-year period—maybe there is only \$1,000 of retirements during the whole fifty years—we couldn't possibly have accrued a reserve that would equal the original cost?

A. Yes, I think we are in agreement on that. I think that is correct.

Q. Doesn't that mean this, Mr. Smith, that when you talk about service lives, having particularly in mind the physical service life, that will give way before the service life you have assumed will to some extent be balanced off by the pieces of pipe that extend for a longer period than your service life; isn't that essential in order to make this method of accounting adequate in producing a reserve?

A. You are assuming that you want one hundred per cent reserve at the end of fifty years?

Q. I certainly am. It is exactly that. As I understand it, this figure represents the functional factor in depreciation and I am assuming, since I have not yet been told, that fifty years is the life of the field.

A. That is the point I was wanting to get to. I think the answer to your question depends entirely upon the supply of gas.

Q. So let's assume—I think we are right together on it—that fifty years is the length of supply of the gas; then wouldn't you have to use less than a 50-year service life in accruing your depreciation annually unless fifty years was the minimum service life of every piece of property and every unit of property in that pipe line?

A. I don't think your last statement that follows is applied to the plant as a whole.

Q. I am limiting it to the pipe line.

A. You are just talking about the pipe line?

Q. The main transmission pipe line. If the life of the field is fifty years, then isn't it erroneous as an accounting matter to take fifty years of the service life for the purpose of determining your annual accruals?

A. I think I can answer that this way:—I am answering it from an accounting viewpoint.

Q. That is what I want.

A. If the supply of gas is exhausted and no other gas is available—I mean, if the supply of gas—if the present supply of gas is exhausted and there is no other supply available—

Q. That is right.

A. —then I don't believe that the 50-year life will provide an adequate reserve so far as main transmission lines alone are concerned—

Q. That is what I am talking about.

A. —but, of course—may I go ahead?

Q. Yes. I can take up the other matter later.

A. I just wanted to add a slight qualification there. I don't know whether it is significant or not, but it might be; that is, that any underestimate in one class of property might tend to be offset by an overestimate in another group of property, looking at the property as a whole.

Q. That is, of course, a matter of practical judgment and not accounting principles, isn't it; that is, from the accounting standpoint, and don't we want to make each classification of property as close to being accurate as we can and not depend upon the chances of this being off?

A. Of course, that would be the most desirable, naturally, but I just want to point out that in the final analysis we are interested in retiring the property as a whole.

Q. Mr. Spencer points out that you have to depend upon

an error made in some other classification to correct the errors made here.

A. I wouldn't say there would be errors, because these estimates are a matter of judgment, I presume, in the final analysis, and I wouldn't want to say they were errors.

Q. What I have in mind is this: The principle that seems to underlie this question as it relates certainly to the natural gas property, is that your service lives are the number of years over which you accrue depreciation of physical property must be a lesser number of years than the number of years in which the supply of gas will be exhausted?

A. I believe that is exactly right and I have taken great pains to find out and ascertain basically, relying upon the engineers on our staff that that was the situation; that we were not getting ourselves into a very embarrassing situation in that respect.

Q. So you would have to have, as far as main lines are concerned, a life of the field greater than fifty years for a sufficient period to balance off these early retirements against the property that lasts more than fifty years?

A. I think that is correct and that has been recognized, of course, and I believe that we dealt with it properly.

Q. Now, then, the other pieces of pipe, here upon which you have two and one-half per cent for laterals at that time, that represents a 40-year service life?

A. That is right.

Q. I notice now in respect to two of these properties that were disposed of you in studying up your depreciation have fully depreciated the original cost over the number of years in which the pipe was in service, is that correct?

A. That is over the period that this property was in service and it belonged to Colorado Interstate Gas Company.

Q. Yes, that is what I mean.

Of course, you were able to do that because that transaction had taken place before you took up this job?

A. Yes, we took some advantage of hindsight because we wanted our accounting to be just as accurate as we could make it.

Q. But it is based on hindsight and doesn't reflect any-

thing that the company knew at the time they constructed the line?

A. I said that it was based on hindsight; it was based more upon an accomplished fact.

Q. When the company first started to accrue depreciation, for example, on this Littleton lateral, of course, if we assume it then didn't know in 1939 it was going to transfer that to the Public Service Company of Colorado, it would have no reason to accrue 9.52 per cent per year from the beginning?

A. No, they couldn't have used that figure even if they knew they were going to transfer it, because they couldn't have predicted they were going to do it and they couldn't have used that figure.

Q. So that, using whatever the percentage they could use, is there any provision made in your method of accruing depreciation to recover that difference through some charge to expense that gets it out at the time the property goes out of service?

A. You mean where a company had gone along and had depreciated this property the same as its other laterals, we will say, and then disposed of the property and then found it didn't have sufficient reserves?

Q. Yes.

A. You might take a look at Account 141, Page 23. That may offer some solution to the situation.

Q. Well, how will you ever get that loss out of the operating expenses if you use this account?

A. As I understand the use of this account it would cover the situation at hand because the retirement of the property through a cause which could not have been reasonably foreseen and provided for at the time of the original service life estimates and apparently would not be provided for by that means; therefore, I believe that we are correct in assuming that the loss would be chargeable to this account under the conditions specified in the account which requires authorization from the Commission to use the account.

If this extraordinary loss ever got into operating expenses; that is, under the conditions we are talking about, it would have to be through approval of the Commission for the company to amortize this loss through operations.

That doesn't mean I am stating that the Commission would be bound to do that; I am saying that if they approved it and authorized it, the company would by that means, as I see it, be permitted to charge that loss to operating expenses.

Q. In any pipe that is consumed in service, such as I understand is so in the Arkansas Valley, which represents a loss that was unpredictable because the pipe is pitted and can't be used, long before the end of the service life, would the loss between the original cost and the percentage that has been accrued against that as depreciation less salvage properly be handled in that way so that it might be charged through operating expenses, the service life that would be consumed in service?

A. I don't think I can answer that question without—I doubt if it could even if all of the facts were known, because I believe a situation like that would require engineering judgment in addition to the accounting information and I believe in the final analysis that is one of the things that is determined by the Commission rather than by the opinion of any member on its staff.

Q. It is probably more of a proper charge to the reserve on the theory you have that the service life will eventually run long enough to average them all up?

A. I don't think an accountant would be proper in getting too much concerned about occasional or sporadic situations of that kind. If they have set their service life up at the beginning of a property and if the experience develops the judgment isn't as good as they thought it was going to be; then if the experience of the property is not proving that their estimates are reasonable, the situation you talked about there might call for a revision of service life estimates. I am just suggesting that; I am not making any definite answer to you at all.

Q. I understand that in connection with the necessity of having the exhaustion of the field in a greater number of service lives you did make inquiry of the engineers and satisfied yourself that there was an ample margin?

A. Yes, that is true.

Q. What is the process that you can go through in determining how far beyond 1978 there should be a gas supply for this line so that at its final exhaustion you will have one hundred per cent of the original cost?

A. That is not an exact science—

Q. I would agree with you on that.

A. —because there is too much unknown. There are too many factors unknown. I believe the correlating of those factors, that is, a final decision as to whether or not you might say the margin was sufficient, was a part of the engineering study; I know it has been considered. I think I have fulfilled my duties and responsibilities as an accountant, but we do not know what the future requirements are going to be at this time except as the engineers have made their estimates of it, and we do not know as to an absolute certainty except as the engineers have estimated it, as I see it, as to what the property addition is going to be from now until 1978 or any other time. Those are both factors that probably enter into that.

Q. It would require a study, no doubt, of the past experience; do you know what retirements have been made in the past of the particular property?

A. The past retirements and prospective retirements. You see the engineers examined this property and inspected it and of course I had no part in that.

Q. You did see to it or were satisfied in your own mind that they would be given consideration to the period beyond the end of the 50-years service life for which gas would still be available through this line?

A. That is my understanding.

(Vol. I, pp. 6864-6884.)

Q. Mr. Smith, will you turn to Page 17, Exhibit 174, which deals with compressing system?

A. Yes.

Q. Will you point out to me the column in which compressors themselves are contained?

A. That is Column 6 as I understand it.

Q. According to the note that is 2.78 per cent; that would be roughly about a 35-year service life?

A. Yes, approximately.

Q. That service life, I take it, is one based entirely upon the physical life of the unit?

A. I believe when the engineers take the stand they can give you a little bit better detail on that than I can. I am not sure but what that is a composite rate than can be

broken down a little further than that. That is my recollection of it now.

Q. Do you know whether in arriving at that service life there was any consideration given to the possible obsolescence or change in the art in any of those functional factors?

A. I understand the functional factors have been considered all the way through.

Q. If you have your mimeographed statement that you read into the record, please turn to it. I notice on the bottom of Page 2 it is stated: "The Company's reserve for depreciation and depreciation expense accounts are incorrect and require adjustments for several reasons: (a) the annual depreciation rates used by the company have varied."

Of course, you are making this conclusion after having had all of the facts before you and as you say using hindsight to the extent that it was available?

A. Yes, in arriving at these determinations, both the engineers and accountants' determinations, it seems to me that we are predicating our present findings to a great extent upon the company's experience to date. Of course, that couldn't be the sole factor but it has been an influential factor.

Q. Now these various rates that this company used, I think they are shown in your exhibit. I guess that is at Page 6, Exhibit 174, isn't it?

A. Page 6 attached to Journal Entry 403 shows the company's rates and their accruals.

Q. And that discloses that at the beginning the company used five per cent as the annual rate of accrual for depreciation on their main pipe line system?

A. Yes, they used five per cent, in fact, on almost every class of property with a few exceptions.

Q. Now, the accounting officers or other officials of the company who were responsible for that determination back in 1928 did not have available to them the information that you had when you made this exhibit?

A. No, they certainly didn't have twelve years of the company's experience available.

Q. And I assume that the way an accounting officer

would proceed in the beginning would be to assemble all of the information he could, which of course wouldn't be very much, and then make a determination of a percentage rate, isn't that correct?

A. I think that the actual determination of a percentage rate, should probably be left up to an engineer, if he had one.

Q. Then somebody in the company would have to furnish the facts and make the decision?

A. That would be true. I think that sometimes the accounting officer of a company in any particular situation might be influenced on his depreciation a great deal by income tax considerations.

Q. Well, your statements that the accruals in that year of five per cent were incorrect and was based, as I take it, upon a consideration of the facts available to you after twelve years' experience, and not because you believed that the decision made in 1928 on the facts then at hand, was an incorrect decision?

A. I don't mean to reflect upon the judgment of the accounting officer at that time. I merely mean to point out that experience has shown a better determination can be made now.

Q. Then you don't mean to imply that the fact that a company may have over a period of a number of years used different rates of depreciation that there was anything wrong or incorrect about it merely because there were different rates?

A. Well, regardless of how good the intentions of the accountant were and how good his judgment may have been in the light of those conditions, if present conditions and the experience of the company shows that his estimates were incorrect or unreasonable, the fact remains that they were incorrect and unreasonable.

Q. That is, what you are speaking of here is that it now turns out on the basis of experience and present knowledge that those previous rates were incorrect?

A. Yes, it seems to me that that is the only interpretation you could make.

Q. That could be true with your present rate as well. Suppose ten or fifteen years from now new facts developed that indicated that the rates you set up were not correct at that time. We could again make the statement that the depreciation rates were wrong because they had varied?

A. You mean the rates I have used instead of your rates?

Q. The rates you have used, yes.

A. Oh, I think that follows. Depreciation is an estimate and we all recognize that the service life is an estimate, and if it is good accounting to make a restatement of depreciation today, twelve or fifteen years after the company was formed, it follows that it might be good accounting practice to make one thirteen years in the future, but not having the facts, I don't know.

Q. The thing I had in mind was this: that the determination of the annual rates can be made only in light of present known knowledge and that if subsequent developments show a different set of facts, then the appropriate thing to do is to find out what those facts justify and then change your depreciation accordingly?

A. That is probably true. That is one of those bridges you cross when you come to it.

Q. In the language you used where you speak of the fact that annual depreciation rates vary, you are not indicating that wherever conditions have required a change in rates from time to time there is anything more than just a mistake of judgment and maybe not, on the basis of then known facts?

A. I think that is the implication of Section (a). Section (a), which points out the flaws, we might say, is not nearly so significant as Section (c).

Q. Let's take Section (b). You say: "Accrued depreciation has been restated by the company by entries made directly to surplus."

Whenever a new set of facts appear that indicates there should be some restatement of depreciation, is there any other way that it can be handled than through adjustment to surplus?

A. You mean so far as recording the transactions on the books at the particular time?

Q. Right.

A. That is a matter of bookkeeping procedure and is probably entirely correct: as a matter of financial reporting, the company, of course, is obligated I think to go further than to merely make the restatement on its books and charge it directly to surplus. When it puts out reports or if it made a statement of income, comparative

statements by years, whether it was three, five, or ten years, I think that the surplus adjustments of that nature which have their inception only because they are a restatement of income for prior years, should be reflected in any restatement of income for a series of prior years.

Q. That is, you would want to put back in the year in which it should have taken place the accrual of depreciation that was not actually put on the books until the subsequent year?

A. Yes. Any accrual or any revision should be related back to the proper year.

Q. But as far as the books are concerned, it is not your intention that they should be rewritten every time you make some revision of your depreciation situation?

A. No. I feel as though any major revisions or restatements of depreciation should be reflected directly to the surplus account on the books. Now, if it was just a minor restatement or revision it might be absorbed in an income account of a particular year.

Q. So you don't mean to imply that the company's books were incorrectly kept by reason of the matter that you state here in Paragraph (b)? The reason I mention that is because the beginning of that sentence reads: "Reserves for depreciation and depletion expense accounts are incorrect."

A. Yes.

Q. I say again, the implication is that they are incorrect because they don't reflect exactly the facts as later developed with respect to depreciation?

A. That is the income account of a particular year; picking it out may not reflect the correct fact to the depreciation expense for that year?

Q. Yes, but the bookkeeping the company did in handling it that way, as far as the books were concerned, was a correct way in doing it?

A. I think as a matter of bookkeeping procedure they follow what any bookkeeper would normally do.

(Vol. pp. 6885-6892.)

Q. Well, now, let me ask you to apply the principles you have just stated to this rate case. Let's assume that the Commission finds that your proposed annual rates of accrual

are correct and bases its rates on them and suppose ten years from now on a reappraisal of the situation in another rate case which it brings because they don't think our rates are high enough, it then appears without question, without dispute, that despite your best efforts today, that it then turns out that your rates were too low.

Now, if we go back and restate our books and show that we depreciated too little, how are we going to get that from the rate payers?

A. Well, that is a problem of rate study. I think that is entirely out of my field.

Q. All right, now, of course let's assume that we can't do it. That seems to be an axiom.

A. You couldn't—

Q. That you cannot collect it from the rate payers over the past ten years. I think that is a normal assumption.

A. You mean ten years in the future, from now?

Q. No, I mean we couldn't go back to the past ten years when the depreciation should have been higher and get a higher rate from our customers because of that additional expense item.

A. Yes, but this future period you are talking about is ten years from now. It isn't—

Q. Oh, no, ten years from now is when we find that you are too low, see.

A. I wanted to get the periods straight.

Q. Yes. Now, when we find you are too low, if we go back and restate our books it will show a lesser net utility income than it had shown, yet the company would not be able to collect any greater gross revenue because of that, and, therefore, isn't it so that in a case where a company is subject to public regulations that you have got to apply a little different rule to that situation than you do to the ordinary business concern that does not have its prices subject to regulation?

A. Well, your question, though, goes right to the matter of setting rates. It doesn't go to the matter of accounting.

Q. Well, we have to keep our books, of course, under the jurisdiction of the same authority that fixes the rates, and I assume that there ought to be some conformity between what is done in one function of the Commission and what is done in another.

A. Well, of course, I presume that the Commission would deal with that situation in a manner that it thought was proper and legal, but that couldn't possibly change my finding as an accountant today, as I see it.

Q. Not today, but it changes it ten years from now; then we would have to go all the way back—

A. All the accountants—if that situation did materialize—all the accountants could do would be to reflect the proper entries in the accounts at that time.

Q. But what I am trying to get at, do you think that under those circumstances we ought to go back to the beginning and restate on our books the depreciation and reserves and the annual accruals?

A. You mean to restate your annual accruals—

Q. Yes.

A. —year by year—

Q. Yes.

A. —open up your books—

Q. Yes.

A. —or rewrite your books, or something like that?

Q. Yes.

A. I think as a matter of bookkeeping procedure it would be adequate to make that adjustment through surplus, if you were required to do it and if it were approved by the Commission, and I am speaking now not from the standpoint of making a ruling that the Division of Accounts is going to be bound by. I am just speaking from the standpoint of an accountant.

Q. The result would be, would it not, that since we have not collected a sufficient depreciation in the past that your plan would be, or your method would be that we would not be permitted in the future to boost the then correct rate up a little to take care of the past deficiencies; that we would go right ahead if it then developed instead of a 50-year life it was 33-year life; we would go right ahead on three per cent from then on without attempting to average the thing off so that the company should recover what it should have recovered?

A. Well, I am making no findings here or making no statements whatsoever about rate setting. The central theme of my business as an accountant is to determine income and I have laid down the principles that I think are absolutely

correct from an accounting standpoint and I believe are concurred in by more than a substantial majority of qualified accountants. The matter of determining what is the cost of gas operations is one thing. The setting of rates is something else.

Q. And so that is clearly understood, that you have not considered the effect on rates in making this depreciation study, that you haven't given that consideration?

A. I—oh—well—

Q. Well, what I want to get at is this: I want to be in position to say to this Commission whether you have or not, and argue the thing. To me it seems it should be given consideration by somebody. If you haven't, then I want to know that and I can go somewhere else.

A. Well, my study has been confined, speaking broadly of the depreciation study and all of the income account study—it has been confined to setting forth year by year the correct cost as nearly as we could determine it from an accounting point of view, the cost of conducting gas operations.

Now, as to setting a rate based on those facts, I hope that we have done them well enough that they do form an intelligent basis for rate setting. I have every confidence that they do because I think they are good accounting. I don't know an accounting job that I have ever done that I felt as good about when it was over with, that we had gone into everything that should be gone into and had all of the expert assistance to back us up on matters that weren't accounting, and that sort of thing. I feel as though it is about as good a piece of accounting work as it is humanly possible to do but it has been purely an accounting piece of work and it is hoped that it furnishes the basis for intelligent rate study, but the rate study is somebody else's responsibility.

Q. In consideration of such questions that I made, it would be something that you would defer to the Commission, that is, pass over to them; that is, let them answer?

A. I believe that that is correct.

Q. Mr. Smith, in arriving at these annual rates, I think you said that you got the service lives from the engineers after realizing that they had given consideration to the estimated life of the field. Now, in making your estimates of the annual rates I take it, then, you gave no consideration

to the fact that the contract between Canadian River Gas Company and Colorado Interstate Gas Company runs for twenty years. You didn't take that 20-year factor into consideration?

A. The existence of that contract, of course, was known. You are speaking now of the contract for sale of gas by Colorado Interstate to Public Service?

Q. We can include that, too, yes. I first mentioned the contract for the purchase of gas by Colorado Interstate from Canadian River, but it has an initial period of twenty years and that would apply both to the pipe line factors of Canadian River as well as the pipe line of Colorado Interstate.

A. Well, I think I can sum it up this way: I believe that the assumption has been made by the engineers that this project—meaning the Canadian River and Colorado Interstate—both as one project, has been treated as an enterprise which would continue to operate so long as a supply of gas is available.

Q. Without regard to any contracts with its customers that have expiration dates in them before that time, such as the Public Service Company contract which ends in 1948?

A. That is correct. I don't know of any precedent in accounting practice where the—going back to a manufacturing concern—the fact that it may have contracts or commitments only for twelve months in advance, that does not modify our accounting. We try to find out the cost of doing business for that 12-months period and we have to assume that it is a going, continuing enterprise because in any other determination it seems to me it would be more legal than in the accounting field.

Q. You considered it was a going enterprise until the field became exhausted?

A. So long as the supply of gas is available.

Q. You are not limiting that to the immediate property of the Canadian River?

A. I am not prepared to answer that completely. Now, I think that will show up clearly in our engineering testimony as to exactly what they have done on that.

Q. At any rate, you have limited it solely to that particular set of circumstances you say, namely, that Colorado Interstate will be a going concern in business so long as the gas supply is available, which number of years or availability will be covered by later witnesses?

A. That is my understanding that it will be supported.

Q. Did you make any examination or study of the papers and other documents that were filed with the Internal Revenue Bureau and used by it in connection with the revision of rates that was made in 1936 or 1938, but which resulted in the revision of the then currently charged annual rate for depreciation?

A. I didn't make a detailed examination of those papers or documents.

Q. Did you give any consideration in arriving at your annual accrual rate to the decision of the Internal Revenue Bureau, then, with respect to the life of Canadian River's gas supply which as I recall it is twenty-five years from 1931 which the Internal Revenue Bureau accepted?

A. The only consideration to it that I have given in this study would be what you might call an indirect one, as that being a factor that affects my computation, and I say "indirect" in the sense that whatever consideration I reflected here is the consideration that has been given it by the engineering staff in arriving at their judgment.

Q. You were cognizant of that life of the field that was stated in the Internal Revenue papers, were you?

A. It has been my general understanding that the assumption was followed out by the company in its accounting that the supply of gas might be exhausted in about 1956 and that was in conformity with something that the Bureau of Internal Revenue—finding it had made, but that was only general information—general knowledge. I am not familiar with the documents. I don't know anything about them and the responsibility of giving that the proper weight is not a part of my study.

Q. And you did not attempt to give it any weight in considering that along with the service lives that the engineers gave them?

A. I did not see any way that I could give it any weight without just arbitrarily refusing to accept the findings of our engineers.

Q. I was only *interest* in the facts. I am not trying to criticize you for it. As a matter of fact, however, you did not give any consideration to it in weighting it in with the opinion which the engineers gave you?

A. No, I did not weight that along with the engineers'

estimates. I accepted the engineers' estimates of service lives which they have determined.

Q. So that any consideration that was given to that would have been given by the engineers?

A. That is my understanding.

Q. Would you turn to Exhibit 176 which is the Canadian River Exhibit, and it might be appropriate at this time to ask you, Mr. Smith, whether or not the questions and answers which you and I have been engaging in would have application to the Canadian River—at least that part of it that is the transmission line from Bivins north, or do you wish to wait until you have read the record and answer the question? Would that be preferable to you, to read the record today?

A. Well, I think I can say at this time that any statement I have made relative to the general theory of depreciation accounting and as to the dovetailing of my exhibit here with the work of our Bureau of Engineers would apply equally to the transmission facilities of Canadian River and Colorado Interstate Gas Company.

By Mr. Spencer:

Q. Well, would that also be true in speaking of the general principles you have discussed with respect to your work in regard to production and gathering facilities of Canadian River Gas Company included in your Exhibit No. 176, confining ourselves only to general principles of accounting and general treatment here?

A. You mean confining it to the depreciation study rather than what we have determined in our depletion study.

Q. Yes, eliminating the depletion study.

A. I believe that is true.

By Mr. Dougherty:

Q. Now, Mr. Smith, if you will turn to Page 20 of Exhibit 176, under the heading of "Field Lines" which is Column 6, I note you have an annual rate of two and a half per cent during the period through 1939 which you have accrued to \$287,158.56 and the original cost of retirements without giving any consideration to salyage of \$191,095.58. Now, that indicates, does it not, that a good deal of rearranging of field lines has taken place in the Canadian River gathering

system if out of a total of roughly \$287,000 you have retired \$191,000.

A. Well, of course, your retirements—I think that a better comparison is on Lines 3 and 4.

Q. There you have got in Line 4 more retirements than the original cost even.

A. The comparison of Lines 3 and 4.

Q. Oh, you mean up above it. I thought you meant Columns 3 and 4.

A. No.

Q. That is the same figure?

A. It is true that original cost of \$191,095.58 has been retired throughout the company's existence in comparison with total original cost charges as shown on Line 3, of \$1,442,269.53.

Q. That's right, but I am talking about the annual rate of depreciation now. They have got a lot more lines there, but you have accrued on the basis of two and a half per cent a year, not a great deal more than the gross retirements. Do you know whether those retirements were made by reason of termination of lines or for relocation and resetting?

A. To make it certain as to that I would probably have to refer to the working papers, but I can point this out and it may serve to answer your question. The high salvage on that, shown on Line 20—

Q. Yes.

A. —would indicate that probably considerable relocation took place there rather than complete retirement out of operation forever, so to speak.

Q. That probably went through the warehouse and then out of second-hand pipe into the new location or something of that sort?

A. That is my recollection, now, of the accounting practice on those things.

Q. Now, where you have a situation such as that is in gathering lines, of course, the intangible costs, the labor, and so on, and the cost of putting the line down, that is all gone isn't it when you make a relocation?

A. The only salvage would be on materials.

Q. So that there is a complete loss of construction costs?

A. Of course, you have got other factors to consider there. It depends upon what they do with their reinstallation costs.

Q. Well, you have got to spend more money to move the line.

A. Well, whether it is charged against the reserve has to be considered.

Q. It is appropriate accounting practice, isn't it, that those construction costs are capitalized and upon retirement should be charged against reserve, shouldn't they?

A. I believe that that is an acceptable accounting practice to capitalize the original installation costs and then to retire those costs against the reserve.

Q. Well, isn't that the way they will have to be accounted for under the Federal Power Commission Code?

A. That is my understanding. I believe that is right.

Q. So not only is it acceptable but there it is. That's the rule as far as natural gas companies are concerned.

A. Under the code.

Q. Under the code?

A. Yes.

Q. You don't have that same factor where a lateral line is concerned that runs to a customer, say, for Colorado Interstate? You have reflected those in that exhibit which, as I recall, shows two and a half per cent annual rate for a number of those lateral lines. Is that your recollection?

A. I recall that that rate was used.

Q. Now, having in mind the different factors involved in field lines, mainly that of frequent relocation and the loss of all construction charges, shouldn't there be a greater annual rate per annum for field lines than for a lateral line or a main line?

A. Of course, I think that that would be leading to an engineering conclusion it seems to me. In studying these service life estimates, I believe that the engineering testimony will support exactly what they had in mind by that service life estimate.

Q. However, from the books and from an accounting standpoint, it is quite apparent that there is a problem of loss of construction costs in field lines which is not involved in lateral lines, is that not correct?

A. It seems to me, now that I have thought it over again, that what the code says is that—there is a provision in there that would permit any relocation to be charged to expense.

(Vol. I, pp. 6898-6912.)

Q. Mr. Smith, this morning in connection with your cross examination on Exhibit 174, Colorado Interstate Gas Company, some reference was made by you concerning a figure that you understood the Internal Revenue Bureau had used as to the life of the field or the reserves of Canadian River Gas Company and what is your information about that? What support, if any, did you have for it?

A. Well, the information that I had was just general knowledge, the general understanding of the situation that was disclosed in the accounting examination. I did not see any documents to support that theory and I got the information that the company—

Mr. Spencer: Now, wait a minute, Mr. Smith. If he knows—any figures he knows, he can put in, but if he is going to put geological figures in here that he knows something about—

Mr. Lange: That is the very thing I want to ask him, whether that was based on any kind of an estimate or whether it was an agreed figure or whether he knows any of the facts about it at all.

The Witness: No, I really don't know what the understanding was, if any, between the Bureau and the company and I don't know any documents on which it was based. So far as I am concerned, it is hearsay that I gained from talking to our Examiners who had been down there and who had questioned—it was a natural question to want to know what the company had based its depreciation accounting policy on and that was the understanding that I gained, that it has to do with income tax purposes, and I don't know what, if anything, there was to back that up on the part of the company.

(Vol. L, pp. 6935-6936.)

Docket G-124

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO ANNUAL AND ACCRUED DEPRECIATION

Particulars	Debit	Credit
No. 402		
Surplus - Miscellaneous other income - 1933	\$3,532.73	
Reserve for depreciation (salvage) - 1933	6,700.63	
Reserve for depreciation (cost) - 1933		\$10,233.36

To correct the Respondent's accounting in the depreciation reserve for the retirement of the Clayton lateral line, measuring station and equipment, sold to Canadian River Gas Company as of June 1, 1933. The following tabulation shows a comparison of the Respondent's accounting per books for the transaction and the basis as adjusted by Commission accountants:

Account	Per Books	As Adjusted	Difference
Plant accounts at May 31, 1933:			
Transmission line and right of way	\$40,039.50	\$29,826.34	\$10,213.16
Measuring system land	100.00	100.00	
Measuring system structures	342.28	345.47	(3.19)
Measuring system equipment	1,265.10	1,241.71	23.39
Total plant accounts	<u>\$41,746.88</u>	<u>\$31,513.52</u>	<u>\$10,233.36</u>
Reserve for depreciation at May 31, 1933:			
Transmission line and right of way	\$ 6,312.39	\$ 2,873.00	\$ 3,439.39
Measuring system structures	114.33	42.74	71.59
Measuring system equipment	226.89	205.14	21.75
Total reserve	<u>\$ 6,653.61</u>	<u>\$ 3,120.88</u>	<u>\$ 3,532.73</u>
Net investment, representing sales price:			
Transmission line and right of way	\$33,727.11	\$26,953.34	\$ 6,773.77
Measuring system land	100.00	100.00	
Measuring system structures	227.95	302.73	(74.78)
Measuring system equipment	1,038.21	1,036.57	1.64
Total sales price	<u>\$35,093.27</u>	<u>\$28,392.64</u>	<u>\$ 6,700.63</u>

The plant investment of Colorado Interstate Gas Company in the Clayton properties sold was adjusted in Examiner's entry No. 209 which is included in the exhibit entitled "Gas Plant Accounts and Examiner's Adjustments." Entry No. 209 resulted in a credit of \$10,223.36 to miscellaneous other income for 1933 representing the excess of the plant account per books for the properties sold as of May 31, 1933 over the adjusted cost thereof. This entry (No. 402) reduces the profit on the sale by \$3,532.73 representing the excess of accrued depreciation on the properties sold per books over accrued depreciation thereon as adjusted and also corrects the entries to the depreciation reserve for salvage and cost retired, respectively.

Docket G-124

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO ANNUAL AND ACCRUED DEPRECIATION

Particulars	Debit	Credit
No. 403		
Reserve for depreciation	\$5,132,039.84	
Surplus - Operating expenses - 1930	1.76	
Surplus - Depreciation		\$5,132,041.60
Year 1928	92,270.49	
" 1929	382,934.29	
" 1930	415,387.30	
" 1931	476,365.13	
" 1932	478,493.51	
" 1933	478,273.78	
" 1934	478,901.95	
" 1935	487,735.93	
" 1936	493,923.41	
" 1937	497,178.09	
" 1938	421,199.10	
" 1939	129,378.62	
	<u>\$5,132,041.60</u>	

To reverse the Respondent's annual provisions for depreciation and to clear the reserve for depreciation of the debit of \$1.76 in 1930 which was credited to work order No. 47. See details attached for summary, of Respondent's annual provisions for depreciation by accounts, and a reconciliation of the annual provisions per books and as reclassified after giving effect to reclassifying entries made by Commission accountants.

Notes:

(1) The change in depreciation rates as of July 1, 1931 was made retroactive to October 1, 1928, and the depreciation reserve per books restated accordingly by a direct/surplus entry. The change as of May 1, 1936, affecting transmission line rights of way, was made retroactive to January 1, 1935, and the reserve for depreciation adjusted through surplus accordingly. The changes in rates during 1938 were effective from January 1, 1938. The change in the method of computing the depreciation on garage equipment in the year 1939 was made retroactive to 1928, and the depreciation reserve adjusted accordingly. The change in rate applicable to transmission rights of way during 1939 was effective January 1, 1939.

(2) Depreciation was provided by the Respondent on autos and trucks only until cost was entirely depreciated.

(3) Examiner's entry No. R-135 included in the exhibit relating to the income account, reclassifies surplus adjustments involving depreciation to income account of year affected.

No. 403 (Cont'd)

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO ANNUAL AND ACCRUED DEPRECIATION

ANNUAL DEPRECIATION BY ACCOUNTS AND RECONCILIATION OF DEPRECIATION, PER BOOKS AND AS RECLASSIFIED

Description (1)	Bases of Accruals (Note 1)				Year 1938 (5)	Year 1939 (6)	1939 (7)	1938 (8)	1937 (9)	1936 (10)	1935 (11)	1934 (12)	1933 (13)	1932 (14)
	Oct. 1, 1928	July 1, 1931	May 1, 1936											
	to June 30, 1931 (2)	to Apr. 30, 1936 (3)	to Dec. 31, 1937 (4)											
Transmission rights of way	5%	0%	2.5%	2.5%	3.5%	\$ 3,869.69	\$ 3,657.07	\$ 4,547.71	\$ 4,542.25					
Transmission line equipment	5	4	4	3.5	3.5	318,218.82	317,112.20	360,154.12	360,515.09	\$357,533.77	\$354,807.38	\$354,692.22	\$355,030.44	
Compressing system structures	5	7.5	7.5	3.5	3.5	6,197.86	6,476.00	13,753.86	13,677.04	13,676.90	13,670.84	13,668.89	13,572.90	
Compressing system equipment	5	4	4	3.5	3.5	43,188.10	42,923.61	47,644.64	47,313.15	47,147.05	46,894.39	46,766.31	45,937.93	
Other compressing system structures	5	7.5	7.5	3.5	3.5	6,159.15	6,105.18	10,747.57	10,421.63	9,499.37	9,481.76	9,438.00	8,328.44	
Other compressing system equipment		4	4	3.5	3.5	182.65	180.12	186.41	174.10	170.90	170.00	167.17	144.64	
Other transmission system structures	5	7.5	7.5	3.5	3.5	1,975.62	1,707.13	2,119.57	1,890.26	1,837.88	1,807.19	1,763.60	2,213.69	
Other transmission system equipment	5	4	4	3.5	3.5	641.17	578.58	473.40	380.18	355.23	344.62	327.55	336.75	
Telephone system	5	4	4	3.5	3.5	5,110.86	5,110.18	5,829.88	5,754.19	5,726.57	5,691.85	5,675.86	5,663.58	
Measuring system structures	5	7.5	7.5	3.5	3.5	1,842.27	1,878.55	4,007.46	4,019.64	4,011.98	3,980.82	3,976.32	3,377.48	
Measuring system equipment	5	4	4	3.5	3.5	3,211.93	3,271.44	3,647.07	3,534.51	3,490.75	3,483.07	3,473.55	3,436.45	
Other measuring system equipment		4	4	3.5	3.5	105.76	105.21	76.24	72.24	72.24	72.24	74.25	71.84	
Measuring system - meters	4													
Other general structures	5	7.5											795.20	
Office furniture and equipment	5 and 20	10	10	10	10	2,955.76	2,994.37	2,927.41	2,758.56	2,577.83	2,576.14	2,566.21	2,549.02	
Stores equipment	5	10											224.00	
Shop equipment	5	10											77.30	
Garage equipment (Note 2)	33-1/3	25	25	25	Estimated	8,902.40	12,962.14	12,728.42	10,937.07	9,351.69	8,521.90	7,995.22	9,855.08	
Tools and equipment	5	10	10	10	10	3,265.81	2,695.42	2,186.69	2,115.56	2,007.51	1,604.98	1,221.77	1,018.47	
Other general equipment	5	4											52.19	
Entrance rights of way	5	4	4	3.5	3.5	2,228.65	2,228.65	16,547.04	16,547.04	16,547.04	16,546.98	16,546.82	16,546.16	
Other undistributed fixed capital	5	4	4	3.5	3.5	12,250.00	12,250.00							
Law expenditures during construction	5	4	4	3.5	3.5	1,781.48	1,781.48	2,035.92	2,035.92	2,035.92	2,035.92	2,035.92	2,035.89	
Interest during construction	5	4	4	3.5	3.5	6,330.34	6,330.34	7,234.68	7,234.68	7,234.68	7,234.65	7,234.57	7,234.42	
Depreciation and adjustments	5	4												
Total annual depreciation charged to income per books						\$129,378.62	\$130,377.97	\$167,178.09	\$163,923.41	\$163,277.31	\$178,924.73	\$177,624.23	\$178,502.17	

Depreciation adjustments made through surplus account on books: (Note 3)

Year	Property				
1939	Garage equipment			(9,178.87)	
1936	Transmission rights of way				4,481.40
1936	Office furniture and fixtures				(22.78)
1933	Clayton lateral line and measuring station and equipment				(22.78)
1932	Garage equipment				672.33
1932	All property				14.12
1931	Garage equipment				
1931	All property				
1929	Garage equipment				

Total annual depreciation as reclassified

\$129,378.62	\$121,199.10	\$167,178.09	\$163,923.41	\$167,735.93	\$178,901.95	\$178,273.78	\$178,493.51
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COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO ANNUAL AND ACCRUED DEPRECIATION

ANNUAL DEPRECIATION BY ACCOUNTS AND RECONCILIATION OF DEPRECIATION, PER BOOKS AND AS RECLASSIFIED

Bases of Accruals (Note 1)																
July 1, 1931 to May 1, 1936		Year	Year	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	
Apr. 30, 1936	Dec. 31, 1937	1938	1939	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	
(3)	(4)	(5)	(6)													
OK	2.5%	2.5%	3.5%	\$ 3,869.69	\$ 3,657.07	\$ 4,547.71	\$ 4,542.25						\$ 7,958.53	\$ 7,362.96	\$ 1,806.95	
4	4	3.5	3.5	318,248.82	317,112.20	360,154.12	360,515.09	\$357,533.77	\$354,807.38	\$354,692.22	\$355,030.14	\$350,629.18	425,453.35	402,787.43	100,064.19	
7.5	7.5	3.5	3.5	6,497.86	6,476.00	13,753.86	13,677.04	13,676.90	13,670.84	13,668.89	13,572.70	13,558.20	2,554.15			
4	4	3.5	3.5	43,488.10	42,923.61	47,644.64	47,313.16	47,147.05	46,894.39	46,766.31	46,937.93	46,801.98	14,536.23	148.60	12.12	
7.5	7.5	3.5	3.5	6,499.45	6,105.48	10,747.57	10,421.63	9,469.37	9,481.76	9,438.00	8,328.14	7,868.13	1,516.96	550.94		
4	4	3.5	3.5	182.65	180.12	186.41	174.10	170.90	170.00	167.17	144.64	98.61				
7.5	7.5	3.5	3.5	1,975.62	1,707.13	2,149.57	1,890.26	1,837.88	1,807.19	1,763.60	2,213.69	2,143.51	1,406.01	1,107.02	438.11	
4	4	3.5	3.5	641.17	578.58	473.40	380.18	355.23	344.62	327.55	336.75	323.90	187.11	99.87	15.49	
4	4	3.5	3.5	5,140.86	5,140.18	5,829.88	5,754.19	5,726.57	5,691.85	5,675.86	5,663.58	5,657.48	7,021.65	7,010.37	1,754.34	
7.5	7.5	3.5	3.5	1,842.27	1,878.55	4,007.46	4,019.64	4,011.98	3,980.82	3,976.32	3,377.48	2,813.29	1,350.53	689.52	155.89	
4	4	3.5	3.5	3,211.93	3,271.44	3,647.07	3,534.51	3,490.75	3,483.07	3,473.55	3,436.45	3,036.39	3,626.48	3,130.57	746.44	
4	4	3.5	3.5	105.76	105.21	76.24	72.24	72.24	72.24	74.25	71.84	71.43				
7.5												62.02				
10											795.20	763.28	218.33	160.86	39.95	
10	10	10	10	2,955.76	2,994.37	2,927.41	2,758.56	2,577.83	2,576.14	2,566.21	2,549.02	2,514.95	2,040.33	1,403.87	305.49	
10											224.00	268.83	130.87	123.96	30.99	
10											77.30	92.80	27.27	3.96	1.00	
25	25	25	Estimated	8,902.40	12,962.14	12,728.42	10,937.07	9,351.69	8,521.90	7,995.22	9,855.08	10,863.96	17,399.67	14,904.19	3,366.98	
10	10	10	10	3,265.81	2,695.42	2,186.69	2,115.56	2,007.51	1,604.98	1,221.77	1,018.47	1,000.66	288.06	197.22	39.18	
4											52.19	62.57	59.60	4.68	1.26	
4	4	3.5	3.5	2,228.65	2,228.65	16,547.04	16,547.04	16,547.04	16,546.98	16,546.82	16,546.46	16,546.95	21,784.12	28,699.34	5,170.93	
4	4	3.5	3.5	12,250.00	12,250.00											
4	4	3.5	3.5	1,781.48	1,781.48	2,035.92	2,035.92	2,035.92	2,035.92	2,035.92	2,035.89	2,035.95	2,544.96	2,544.96	636.24	
4	4	3.5	3.5	6,330.34	6,330.34	7,234.68	7,234.68	7,234.68	7,234.65	7,234.57	7,234.42	7,234.64	9,043.20	9,133.93	2,288.04	
4												72.77				
				\$129,378.62	\$430,377.97	\$497,178.09	\$493,923.41	\$483,277.31	\$470,984.73	\$477,624.23	\$478,502.17	\$473,449.01	\$519,279.35	\$471,985.28	\$116,873.89	
on books: (Note 3)																
					(9,178.87)											
								4,481.40								
								(22.78)	(22.78)	(22.78)	(22.78)	(3.78)				
tion and equipment										672.33						
											14.12	2,919.90	1,744.09	749.54	(365.50)	
													(105,051.94)			
													(584.20)			
														(89,800.53)	(24,315.94)	
															78.04	
				\$129,378.62	\$421,199.10	\$497,178.09	\$493,923.41	\$487,735.93	\$478,901.95	\$478,273.78	\$478,463.51	\$476,365.13	\$415,387.30	\$382,934.29	\$ 92,270.49	

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO ANNUAL AND ACCRUED DEPRECIATION

Particulars	Debit	Credit
No. 404		
Reserve for amortisation of franchises and contracts	\$1,471,546.15	
Surplus - Amortisation		\$1,471,546.15
Year 1928	\$ 58,823.53	
" 1929	117,647.06	
" 1930	117,647.04	
" 1931	124,999.98	
" 1932	131,672.62	
" 1933	131,536.56	
" 1934	131,536.56	
" 1935	131,536.56	
" 1936	131,536.56	
" 1937	131,536.56	
" 1938	131,536.56	
" 1939	131,536.56	
	<u>\$1,471,546.15</u>	

To reverse the annual provisions made on Respondent's books for amortisation. See the following tabulation for details.

Particulars	Total	Contracts for Purchase and Sale of Gas	City of Colorado Springs, Colo.
Balance included in plant account at December 31, 1939, per books	\$2,589,607.84	\$2,352,941.17	\$236,666.67
Amortisation rate (Note 1)		5%	5.869%
Annual amortization, as reclassified: (Note 2)			
Year 1939	\$ 131,536.56	\$ 117,647.04	\$ 13,889.52
" 1938	131,536.56	117,647.04	13,889.52
" 1937	131,536.56	117,647.04	13,889.52
" 1936	131,536.56	117,647.04	13,889.52
" 1935	131,536.56	117,647.04	13,889.52
" 1934	131,536.56	117,647.04	13,889.52
" 1933	131,536.56	117,647.04	13,889.52
" 1932	131,672.62	117,647.04	14,025.58
" 1931	124,999.98	117,647.04	7,352.94
" 1930	117,647.04	117,647.04	
" 1929	117,647.06	117,647.06	
Six months ended December 31, 1928	58,823.53	58,823.53	
Totals	<u>\$1,471,546.15</u>	<u>\$1,352,940.99</u>	<u>\$118,605.16</u>

1803

Exhibit No. 174

Docket G-124

9

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO ANNUAL AND ACCRUED DEPRECIATION

No. 1204 (Cont'd)

Notes:

(1) The amortization rates used by the Respondent have been designed to write off the recorded costs of, or the values placed upon, the contracts over their respective lives. The contracts for the purchase and sale of gas are being amortized on the books over the 20-year period from July 1, 1928 to June 30, 1948, the expiration date of the contracts. The recorded cost of the City of Colorado Springs, Colorado, contract is being amortized on the books from July 1, 1931 to June 19, 1948.

(2) Amortization for the six months ended December 31, 1928 and for the year 1929 was charged to surplus on the Respondent's books in the years 1931 and 1930, respectively. These charges were transferred to the income accounts of the years to which applicable on Examiner's entry No. R-137, which is included in the exhibit relating to the income account.

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO ANNUAL AND ACCRUED DEPRECIATION

Particulars	Debit	Credit
No. 405		
Reserve for depreciation (cost)	\$ 5,367.96	
Reserve for depreciation (salvage)	26,361.57	
Surplus - Profit and loss on retirements		\$31,729.53
Year 1928	\$ 235.00	
" 1929	(114.92)	
" 1930	(239.83)	
" 1931	3,370.65	
" 1932	408.28	
" 1933	2,612.92	
" 1934	224.78	
" 1935	84.45	
" 1936	8,667.62	
" 1937	4,370.61	
" 1938	(3,447.37)	
" 1939	15,537.34	
	<u>\$31,729.53</u>	

To charge reserve for depreciation with net amount of profit and loss on retirements which have been shown in the reclassified income statements as charges or credits to income. (Entries Nos. R-136 and R-138 in the exhibit relating to the income account result in showing all profits and losses on retirements as a separate caption in the income statements, as reclassified.) The charge to the reserve of \$5,367.96 for cost retired represents various items of property charged off to expense and to surplus in 1931, and reclassified by the Examiner to profit and loss on retirements. See a table attached for reconciliation of profit and loss on retirements reflected in the reserve for depreciation per books with the amounts used in this entry.

Exhibit 174

COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RETAINMENT AND ACQUIRED DEPRECIATION
RELATIVE TO ASSETS AND ACCUMULATED DEPRECIATION

Line Number	Particulars	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000	3001	3002	3003	3004	3005	3006	3007	3008	3009	3010	3011	3012	3013	3014	3015	3016	3017	3018	3019	3020	3021	3022	3023	3024	3025	3026	3027	3028	3029	3030	3031	3032	3033	3034	3035	3036	3037	3038	3039	3040	3041	3042	3043	3044	3045	3046	3047	3048	3049	3050	3051	3052	3053	3054	3055	3056	3057	3058	3059	3060	3061	3062	3063	3064	3065	3066	3067	3068	3069	3070	3071	3072	3073	3074	3075	3076	3077	3078	3079	3080	3081	3082	3083	3084	3085	3086	3087	3088	3089	3090	3091	3092	3093	3094	3095	3096	3097	3098	3099	3100	3101	3102	3103	3104	3105	3106	3107	3108	3109	3110	3111	3112	3113	3114	3115	3116	3117	3118	3119	3120	3121	3122	3123	3124	3125	3126	3127	3128	3129	3130	3131	3132	3133	3134	3135	3136	3137	3138	3139	3140	3141	3142	3143	3144	3145	3146	3147	3148	3149	3150	3151	3152	3153	3154	3155	3156	3157	3158	3159	3160	3161	3162	3163	3164	3165	3166	3167	3168	3169	3170	3171	3172	3173	3174	3175	3176	3177	3178	3179	3180	3181	3182	3183	3184	3185	3186	3187	3188	3189	3190	3191	3192	3193	3194	3195	3196	3197	3198	3199	3200	3201	3202	3203	3204	3205	3206	3207	3208	3209	3210	3211	3212	3213	3214	3215	3216	3217	3218	3219	3220	3221	3222	3223	3224	3225	3226	3227	3228	3229	3230	3231	3232	3233	3234	3235	3236	3237	3238	3239	3240	3241	3242	3243	3244	3245	3246	3247	3248	3249	3250	3251	3252	3253	3254	3255	3256	3257	3258	3259	3260	3261	3262	3263	3264	3265	3266	3267	3268	3269	3270	3271	3272	3273	3274	3275	3276	3277	3278	3279	3280	3281	3282	3283	3284	3285	3286	3287	3288	3289	3290	3291	3292	3293	3294	3295	3296	3
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COLORADO INTERSTATE GAS COMPANY
EXAMINER'S RECLASSIFYING AND ADJUSTING ENTRIES
RELATING TO ANNUAL AND ACCRUED DEPRECIATION

Particulars

Debit

Credit

No. 406

Surplus - Depreciation

\$2,823,460.29

Year 1928	\$ 91,579.09
" 1929	196,934.03
" 1930	223,914.91
" 1931	244,612.77
" 1932	253,055.67
" 1933	255,803.22
" 1934	254,689.94
" 1935	254,454.43
" 1936	259,836.97
" 1937	261,156.72
" 1938	261,037.57
" 1939	266,384.97

\$2,823,460.29Reserve for depreciation of gas plant
in service

\$2,819,797.11

Reserve for depreciation of gas plant
held for future use

3,663.18

To record the annual depreciation of gas plant in service, based on service lives estimated by Bureau of Engineering. The gas plant held for future use is segregated by Examiner's entry No. 214, as of December 31, 1937. Depreciation computed on this property to December 31, 1937 is charged to depreciation expense. See Schedule No. 1 for details of adjusted annual depreciation.

No. 407

Reserve for depreciation of gas plant held
for future use - 1937

\$1,319.04

Reserve for depreciation of gas plant in
service - 1937

\$1,319.04

To transfer to the former account the net charge resulting from retirements of gas plant held for future use, as per details in following tabulation:

Year	Original Costs Retired	Less Salvage	Net Retirement
1933	\$2,041.41	\$738.24	\$1,303.17
1934	71.58	56.29	15.29
1936	2.33	1.75	.58
Totals	<u>\$2,115.32</u>	<u>\$796.28</u>	<u>\$1,319.04</u>

Line No.	Particulars	Total		Transmission System		Distribution System		Fixed Capital		Future Use	
		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1	Costs subject to depreciation:										
2	Original charges per books (*)	\$12,260,577.87	\$12,558,142.55	\$11,168,148.75	\$176,002.65	\$914,041.15	\$ 2,115.32				
3	Reserve's adjustments	(4,350,016.16)	(150,011.17)	(33,239.25)	(203.38)	(141,568.66)	19,944.71				
4	Adjusted total cost subject to depreciation	\$11,850,561.71	\$11,808,131.38	\$11,135,109.50	\$175,799.27	\$772,472.49	\$22,110.03				
5	Less retirements	283,820.35	281,705.03	124,743.60	18,986.59	138,034.84	2,115.32				
6	Adjusted cost at December 31, 1939 (*)	\$11,566,741.06	\$11,526,426.35	\$11,010,435.90	\$156,812.74	\$634,437.65	\$19,994.71				
Depreciation, computed annually, based on service life estimates furnished by Bureau of Engineering:											
7	Annual rates										
8	Six months ended December 31, 1938										
9	Year 1939	\$1,579.09	\$1,579.09	\$1,579.09	\$1,579.09	\$1,579.09	\$1,579.09				
10	" 1940	196,934.03	196,934.03	175,368.17	175,368.17	175,368.17	175,368.17				
11	" 1941	223,707.65	223,707.65	199,256.69	199,256.69	199,256.69	199,256.69				
12	" 1942	244,612.77	244,612.77	226,100.39	226,100.39	226,100.39	226,100.39				
13	" 1943	253,055.67	253,055.67	231,022.81	231,022.81	231,022.81	231,022.81				
14	" 1944	255,803.22	255,803.22	232,618.26	232,618.26	232,618.26	232,618.26				
15	" 1945	254,689.94	254,689.94	232,149.06	232,149.06	232,149.06	232,149.06				
16	" 1946	254,154.43	254,154.43	233,141.96	233,141.96	233,141.96	233,141.96				
17	" 1947	259,856.97	259,856.97	235,870.77	235,870.77	235,870.77	235,870.77				
18	" 1948	261,156.72	261,156.72	235,555.79	235,555.79	235,555.79	235,555.79				
19	" 1949	266,384.97	266,384.97	240,152.54	240,152.54	240,152.54	240,152.54				
20	Total accruals to December 31, 1939	\$2,823,620.29	\$2,819,797.11	\$2,534,208.04	\$2,534,208.04	\$2,534,208.04	\$2,534,208.04				
21	Less retirement losses to December 31, 1939:										
22	Original costs retired (Schedule No. 7)	\$283,820.35	\$201,705.03	\$124,743.60	\$18,986.59	\$138,034.84	\$2,115.32				
23	Less salvage (Schedule No. 8)	98,835.52	98,039.24	19,904.16	4,890.27	43,236.81	736.28				
24	Net charges to reserve	\$184,984.83	\$103,665.79	\$74,839.44	\$14,096.32	\$94,798.03	\$1,379.04				
25	Other credits to reserve:										
26	Depreciation during original construction period capitalized	\$13,675.74	\$13,675.74								
27	Reserve acquired on autos and trucks purchased from Canadian River Gas Company	573.52	573.52								
28	Reserve for depreciation at December 31, 1939, as adjusted	\$2,652,744.72	\$2,650,380.58	\$2,489,368.60	\$39,888.20	\$121,123.76	\$2,341.14				

For further details see Schedule No. 7

(*) Land costs included above are eliminated from the bases used in computations of annual depreciation.

COLORADO INTERSTATE GAS COMPANY
ANNUAL AND ACCRUED DEPRECIATION OF MAIN LINE AND LATERALS

Line No.	Particulars (1)	Total Main Line and Laterals (2)	Main Line (Including Loops and River Crossings) (3)	Total Laterals (4)	L a t e r a l s								
					American Crystal Sugar Co. and Loop (5)	Arkansas Valley (6)	Aurora and Extension (7)	Clayton (8)	Colo. Fuel & Iron Co. and St. Charles River Crossing (9)	Colorado Springs (10)	Fountain Valley School (11)	Fort Lyon (12)	La Junta (13)
Costs subject to depreciation:													
1	Original charges per books	\$9,286,441.53	\$8,060,799.20	\$1,225,642.33	\$18,706.81	\$89,323.38	\$52,076.43	\$29,939.86	\$237,564.61	\$41,848.83	\$3,505.11	\$28,870.72	\$242,383.25
2	Examiner's adjustments	(16,806.88)	(11,407.32)	(5,399.56)					(4,826.77)				
3	Adjusted total cost subject to depreciation	\$9,269,634.65	\$8,049,391.88	\$1,220,242.77	\$18,706.81	\$89,323.38	\$52,076.43	\$29,939.86	\$232,737.84	\$41,848.83	\$3,505.11	\$28,870.72	\$242,383.25
4	Less retirements	85,671.82	29,630.27	56,041.55	147.06	52.58	281.22	29,939.86		242.82		10.14	4,117.28
5	Adjusted cost at Dec. 31, 1939	\$9,183,962.83	\$8,019,761.61	\$1,164,201.22	\$18,559.75	\$89,270.80	\$51,795.21		\$232,737.84	\$41,606.01	\$3,505.11	\$28,860.58	\$238,265.97
Depreciation, computed annually, based on service life estimates furnished by Bureau of Engineering:													
6	Annual Rates		2%		2%	2%	2%	2%	2%	2%	2%	2%	2%
7	Six months ended Dec. 31, 1928	\$ 81,315.07	\$ 78,421.27	\$ 2,893.80				\$ 233.09	\$ 2,332.18				
8	Year 1929	168,978.45	156,842.54	12,135.91	\$ 97.18			466.18	4,664.36			\$ 347.31	\$ 2,901.73
9	1930	176,853.36	156,987.83	19,865.53	194.37		\$ 609.94	477.01	4,665.15			694.61	5,803.45
10	1931	181,160.78	157,017.46	24,143.32	328.30		1,227.39	741.19	4,663.71	\$ 372.73		713.47	5,834.17
11	1932	184,800.53	157,018.55	27,781.98	464.93	\$ 1,114.18	1,288.40	750.76	4,663.71	745.46		713.47	5,834.17
12	1933	185,737.02	157,293.08	28,443.94	460.91	2,228.37	1,288.40	310.80	4,652.91	749.35		719.06	5,840.42
13	1934	185,461.05	157,302.04	28,159.01	460.91	2,228.37	1,288.40		4,653.28	759.19		719.12	5,843.54
14	1935	186,312.03	158,136.01	28,176.02	461.87	2,229.04	1,290.90		4,653.28	759.43		721.51	5,851.48
15	1936	188,504.15	160,260.83	28,243.32	459.79	2,231.45	1,290.90		4,653.28	827.81		721.51	5,858.79
16	1937	188,338.58	160,030.29	28,308.29	459.87	2,231.46	1,291.85		4,653.94	831.68		721.51	5,864.19
17	1938	188,765.53	160,330.75	28,434.78	460.15	2,231.46	1,291.33		4,653.94	832.15	\$ 43.81	721.51	5,919.05
18	1939	188,814.64	160,335.66	28,478.98	460.15	2,231.46	1,294.88		4,654.76	832.15	87.63	721.51	5,917.44
19	Total depreciation accruals to Dec. 31, 1939	\$2,105,041.19	\$1,819,976.31	\$ 285,064.88	\$ 4,308.43	\$16,725.79	\$12,162.39	\$ 2,979.03	\$ 53,564.50	\$ 6,709.95	\$ 131.44	\$ 7,514.59	\$ 61,468.40
Less retirement losses to Dec. 31, 1939:													
20	Original costs retired	\$ 85,671.82	\$ 29,630.27	\$ 56,041.55	\$ 147.06	\$ 52.58	\$ 281.22	\$29,939.86		\$ 242.82		\$ 10.14	\$ 4,117.28
21	Less salvage	45,938.15	15,916.85	30,021.30	74.20	25.97	86.98	26,960.83		100.03			1,412.31
22	Net charges to reserve	\$ 39,733.67	\$ 13,713.42	\$ 26,020.25	\$ 72.86	\$ 26.61	\$ 194.24	\$ 2,979.03		\$ 142.79		\$ 10.14	\$ 2,704.97
23	Reserve for depreciation at Dec. 31, 1939, as adjusted	\$2,065,307.52	\$1,806,262.89	\$ 259,041.63	\$ 4,235.57	\$16,699.18	\$11,968.15		\$ 53,564.50	\$ 6,567.16	\$ 131.44	\$ 7,504.45	\$ 58,763.43

Notes: (1) Expiration of service value of property disposed of in 1939 has been charged off over its actual service life, at rate of 10.5% per annum. Balance in account depreciated at 2% per annum, based on service life estimates furnished by Bureau of Engineering.

COLORADO INTERSTATE GAS COMPANY
ANNUAL AND ACCRUED DEPRECIATION OF MAIN LINE AND LATERALS

L a t e r a l s

American Crystal Sugar Co. and Loop	Arkansas Valley	Aurora and Extension	Clayton	Colo. Fuel & Iron Co. and St. Charles River Crossing	Colorado Springs	Fountain Valley School	Fort Lyon	La Junta	Las Animas	Littleton	North	Portland	Pueblo	Rocky Ford	Santa Fe & Santa Fe Prefiring System
(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)
\$18,706.81	\$89,323.38	\$52,076.43	\$29,939.86	\$237,564.61 (4,826.77)	\$41,848.83	\$3,505.11	\$28,870.72	\$242,383.25	\$115,445.99 50.44	\$5,363.06	\$84,063.64	\$197,571.55	\$31,734.17 (623.23)	\$30,491.27	\$16,733.65
\$18,706.81	\$89,323.38	\$52,076.43	\$29,939.86	\$232,737.84	\$41,848.83	\$3,505.11	\$28,870.72	\$242,383.25	\$115,446.43	\$5,363.06	\$84,063.64	\$197,571.55	\$31,110.94	\$30,491.27	\$16,733.65
147.06	52.58	281.22	29,939.86	242.82	242.82		10.14	4,117.28	613.01	5,363.06	160.82	453.05		154.99	14,505.66
\$18,559.75	\$89,270.80	\$51,795.21		\$232,737.84	\$41,606.01	\$3,505.11	\$28,860.58	\$238,265.97	\$114,883.42		\$83,902.82	\$197,118.50	\$31,110.94	\$30,336.28	\$2,247.99

2 1/2%	2 1/2%	2 1/2%	2 1/2%	2%	2%	2 1/2%	2 1/2%	2 1/2%	2 1/2%	9.52%	2 1/2%	2%	2%	2 1/2%	(Note 1)
\$ 97.18			\$ 233.09	\$ 2,332.18					20.14				\$ 308.39		
194.37			466.18	4,664.36		\$ 347.31	\$ 2,901.73	1,398.55	215.80	\$ 1,026.79			616.77	\$ 371.24	
328.30		\$ 609.94	477.01	4,665.15		694.61	5,803.45	2,756.80	491.61	2,053.58			617.22	742.49	\$ 759.30
464.93	\$ 1,114.18	1,227.39	741.19	4,663.71	\$ 372.73	713.47	5,834.17	2,866.97	491.61	2,066.78	\$ 1,944.54		622.22	751.63	1,518.61
460.91	2,228.37	1,288.40	750.76	4,663.71	715.46	713.47	5,834.17	2,866.97	491.61	2,066.78	3,889.08		622.22	751.63	1,518.61
460.91	2,228.37	1,288.40	310.80	4,652.91	719.35	719.06	5,840.42	2,861.38	491.61	2,058.47	3,889.14		622.88	751.63	1,518.61
461.87	2,229.04	1,290.90		4,653.28	759.19	719.12	5,843.54	2,864.65	491.61	2,058.47	3,898.32		622.88	751.66	1,518.61
459.79	2,231.45	1,290.90		4,653.28	759.43	721.51	5,851.48	2,865.04	491.61	2,058.47	3,098.40		622.88	753.50	1,518.61
459.87	2,231.46	1,291.85		4,653.28	827.81	721.51	5,858.79	2,853.97	491.61	2,058.47	3,899.48		622.88	754.77	1,518.61
460.15	2,231.46	1,291.33		4,653.94	831.68	721.51	5,864.19	2,854.24	491.61	2,074.43	3,937.91		622.22	754.77	1,518.61
460.15	2,231.46	1,294.88		4,654.76	832.15	\$ 43.81	5,919.05	2,854.24	491.61	2,098.81	3,941.12		622.22	754.77	1,518.61
					832.15	87.63	5,917.41	2,854.38	491.60	2,094.39	3,942.12		622.22	755.71	1,518.61
\$ 4,308.43	\$16,725.79	\$12,162.39	\$ 2,979.03	\$ 53,564.50	\$ 6,709.95	\$ 131.44	\$ 7,514.59	\$ 61,468.40	\$ 29,917.33	\$ 5,161.89	\$21,715.44	\$ 33,240.11	\$ 7,145.00	\$ 7,893.80	\$14,426.79
\$ 147.06	\$ 52.58	\$ 281.22	\$29,939.86			\$ 242.82		\$ 10.14	\$ 4,117.28	\$ 613.01	\$ 5,363.06	\$ 160.82	\$ 453.05	\$ 154.99	\$14,505.66
74.20	25.97	86.98	26,960.83			100.03			1,412.31	266.15	201.17	103.35	98.94	78.60	612.77
72.86	26.61	194.24	\$ 2,979.03			112.79		\$ 10.14	\$ 2,704.97	\$ 346.86	\$ 5,161.89	\$ 57.47	\$ 354.11	\$ 76.39	\$13,892.89
\$ 4,235.57	\$16,699.18	\$11,968.15		\$ 53,564.50	\$ 6,567.16	\$ 131.44	\$ 7,504.45	\$ 58,763.43	\$ 29,570.47		\$21,657.97	\$ 32,886.00	\$ 7,145.00	\$ 7,817.41	\$ 533.90

COLORADO INTERSTATE GAS COMPANY
ANALYSIS OF RESERVE FOR DEPRECIATION, PER BOXES
FROM INCEPTION TO DECEMBER 31, 1939

Line No. Year	Provision for Depreciation			Adjustments			Balance at		
	Expense	Investment	Charged to Plant	Retirements	of Error Years' Depreciation (Through Surplus)	(Profit) or Loss on Retirements Miscellaneous	Beginning of Period	End of Period	
(1)	(3)	(4)	(5)	(6)	(7)	(8)	(2)	(10)	(9)
1 1928	\$116,873.09	\$14,054.83	\$ (205.00)			\$ 205.00	\$ 130,928.72	\$ 130,928.72	
2 1929	471,985.28	(379.09)	(15,262.61)	\$ 5,604.35	\$ 78.04	(160.40)	593,367.81	593,367.81	\$ 573.52
3 1930	519,279.35		(12,106.46)	4,769.17		(145.76)	1,105,162.36	1,105,162.36	(1.76)
4 1931	473,449.01		(35,136.98)	4,374.00	(114,700.67)	(1,783.32)	1,451,304.40	1,451,304.40	
5 1932	478,502.17		(11,864.37)	3,401.13	(99,989.79)	168.28	1,821,761.82	1,821,761.82	
6 1933	477,624.23		(56,085.14)	46,470.16		(3,507.68)	2,286,263.39	2,286,263.39	
7 1934	478,924.73		(22,352.74)	11,499.32		25.80	2,754,350.50	2,754,350.50	
8 1935	483,277.31		(13,160.97)	4,471.56		(40.86)	3,228,897.54	3,228,897.54	
9 1936	483,923.41		(42,075.64)	13,848.95		8,113.08	3,707,393.84	3,707,393.84	
10 1937	487,178.09		(17,905.54)	5,824.57		2,395.40	4,194,886.36	4,194,886.36	
11 1938	430,377.97		(24,901.28)	8,111.98		(3,422.37)	4,605,052.66	4,605,052.66	
12 1939	469,378.62		(46,817.75)	18,917.69	(9,178.87)		4,994,352.35	4,994,352.35	
	\$5,350,776.06	\$13,675.74	(\$240,934.37)	\$127,232.88	(\$219,404.79)	\$2,347.11			\$971.76